

UNIVERSITY OF SOUTH FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2009



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The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Vanessa J. Cellini, CPA, and the audit was supervised by Karen J. Collington, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

UNIVERSITY OF SOUTH FLORIDA
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the University's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

Audit Objectives and Scope

Our audit objectives were to determine whether the University of South Florida and its officers with administrative and stewardship responsibilities for University operations had:

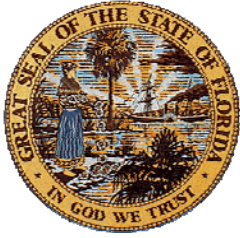
- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2009. We obtained an understanding of the University's environment, including its internal control and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the University are included in our report No. 2010-077.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent University records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street
Tallahassee, Florida 32399-1450



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of South Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2009, which collectively comprise the University's basic financial statements as shown on pages 12 through 49. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for these entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of South Florida and of its aggregate discretely presented component units as of June 30, 2009, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the University of South Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 11, and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on page 50, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



David W. Martin, CPA
February 8, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2009, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

FINANCIAL HIGHLIGHTS

The University's assets totaled \$1.5 billion at June 30, 2009. This balance reflects a \$109.3 million, or 7.8 percent, increase from the 2007-08 fiscal year. Liabilities decreased by \$15.9 million, or 4.5 percent, totaling \$341.3 million at June 30, 2009, compared to \$357.2 million at June 30, 2008. As a result, the University's net assets increased by \$125.2 million, reaching a year-end balance of \$1.2 billion.

The University's operating revenues totaled \$565 million for the 2008-09 fiscal year, representing a 4.9 percent increase over the 2007-08 fiscal year due mainly to increases in student tuition and fees; Federal grants and contracts; and sales and services of auxiliary enterprises. Operating expenses totaled \$943.4 million for the 2008-09 fiscal year, representing a decrease of 0.3 percent over the 2007-08 fiscal year due mainly to reductions in expenditures for compensation and employee benefits; services and supplies; and depreciation.

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report includes three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The financial statements and notes thereto, encompass the University and its component units. These component units include: University of South Florida Foundation, Inc.; University of South Florida Alumni Association, Inc.; University of South Florida Medical Services Support Corporation; Sun Dome, Inc.; University of South Florida Research Foundation, Inc.; USF Financing Corporation; USF Property Corporation; USF Health Professions Conferencing Corporation; and the University Medical Service Association, Inc.

Information regarding these component units, including summaries of their separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the component units. For those component units reporting under GASB standards, MD&A information is included in their separately issued audit reports.

THE STATEMENT OF NET ASSETS

The statement of net assets reflects the assets and liabilities of the University, using the accrual basis of accounting, and presents the financial position of the University at a specified time. The difference between total assets and total liabilities, net assets, is one indicator of the University's current financial condition. The changes in net assets that occur over time indicate improvement or deterioration in the University's financial condition.

The following summarizes the University's assets, liabilities, and net assets at June 30:

Condensed Statement of Net Assets at June 30
(In Thousands)

	2009	2008
Assets		
Current Assets	\$ 723,175	\$ 628,248
Capital Assets, Net	698,941	664,346
Other Noncurrent Assets	84,836	105,034
Total Assets	1,506,952	1,397,628
Liabilities		
Current Liabilities	180,594	216,784
Noncurrent Liabilities	160,726	140,447
Total Liabilities	341,320	357,231
Net Assets		
Invested in Capital Assets, Net of Related Debt	567,361	477,980
Restricted for Expendable	308,929	322,762
Unrestricted	289,342	239,655
Total Net Assets	\$ 1,165,632	\$ 1,040,397

The University's assets totaled \$1.5 billion at June 30, 2009. This balance reflects a \$109.3 million, or 7.8 percent increase over the 2007-08 fiscal year. This increase is attributable to an increase in current assets of \$94.9 million and an increase in capital assets of \$34.6 million offset by a decrease in other noncurrent assets of \$20.2 million.

Current investments and cash for the University increased a total of \$32.8 million between the two fiscal years as a result of the University's positive change in net assets. Accounts receivable increased by a total of \$12.3 million. This was mainly attributable to an increase in contracts and grants receivable of \$10.4 million. In addition, amounts due from the State increased by \$52.8 million as a result of new funding received for construction that is still unspent and amounts owed for 2008-09 fiscal year educational enhancement funds that were not remitted to the University until after the end of the fiscal year.

Net capital assets increased by \$34.6 million due primarily to an increase in activity for construction in progress and the addition of land donated for the Polytechnic Campus. The decrease of \$20.2 million in other noncurrent assets is largely attributable to utilizing prior year construction cash and investments, which led to the increase in construction in progress.

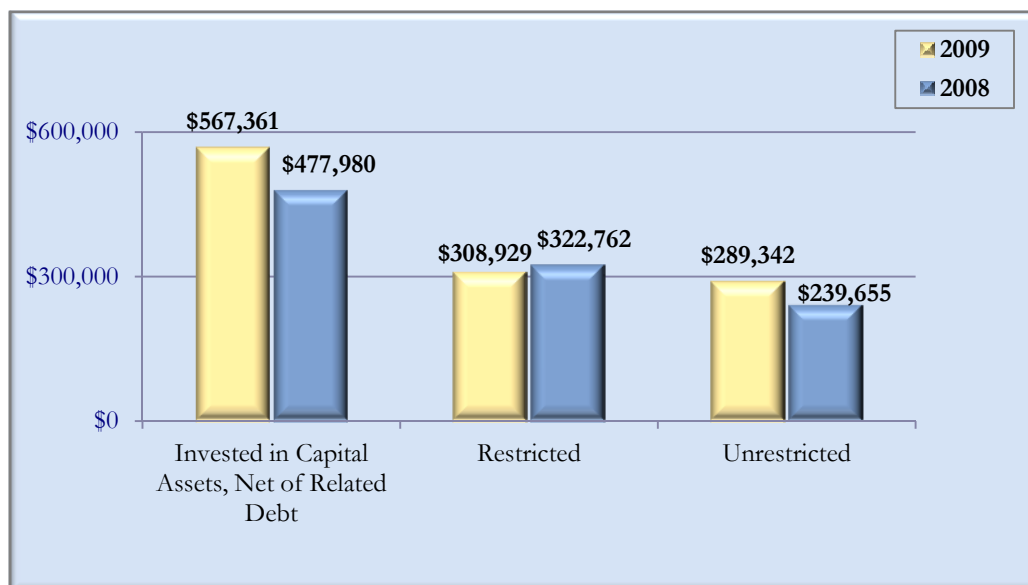
Total liabilities decreased by \$15.9 million, which was made up of a decrease in current liabilities of \$36.2 million offset by an increase in noncurrent liabilities of \$20.3 million. The major decreases in current liabilities were associated with decreases of \$17 million in accounts payable primarily from a reduction in Agency fund construction activity with the USF Financing Corporation and \$23.7 million in due to component units primarily from a reduction in amounts due to the USF Financing Corporation for construction and financing of buildings that resulted from completion of construction projects. Changes to noncurrent liabilities are related to increases in accrued self-

insurance claims of \$4.1 million, increases to both compensated absences liability and postemployment healthcare benefits payable of \$7.9 million, and the \$8.9 million addition of new Statewide university system bonds used for several minor construction projects, which was offset by the payment of principal of \$4.5 million on outstanding bonds. In addition the University recorded other noncurrent liabilities of \$5.2 million for the return of funds to the Federal Government should the University cease making loans or have excess cash in the loan program.

This combination of changes in both total assets of \$109.3 million and total liabilities of \$15.9 million resulted in a net increase in total net assets of \$125.2 million. This increase in total net assets is attributable to increases in capital assets, net of related debt of \$89.4 million and unrestricted net assets of \$49.6 million offset by a reduction in restricted net assets of \$13.8 million.

Net assets are reported in three major categories. The first category, invested in capital assets, net of related debt, provides the University’s equity in property, plant, and equipment owned by the University. Restricted net assets are another category, which may be further broken down into nonexpendable and expendable. Restricted nonexpendable net assets represent funds that have been donated to the University that are required to be invested in perpetuity. These net assets are primarily maintained within the University of South Florida Foundation, Inc., a component unit of the University. Restricted expendable net assets are available for use by the University, but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the University for any lawful purpose of the University. The following graph illustrates the comparative change in net assets by category for the 2008-09 and 2007-08 fiscal years:

**Net Assets: College
(In Thousands)**



THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The statement of revenues, expenses, and changes in net assets presents the University's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the University's activity for the 2008-09 and 2007-08 fiscal years:

**Condensed Statement of Revenues, Expenses,
and Changes in Net Assets
(In Thousands)**

	<u>2008-09</u>	<u>2007-08</u>
Operating Revenues	\$ 565,049	\$ 538,543
Operating Expenses	<u>(943,403)</u>	<u>(946,241)</u>
Operating Loss	(378,354)	(407,698)
Net Nonoperating Revenues	<u>417,466</u>	<u>432,704</u>
Income Before Other Revenues, Expenses, Gains, or Losses	39,112	25,006
Other Revenues, Expenses, Gains, or Losses	<u>86,123</u>	<u>109,290</u>
Net Increase In Net Assets	125,235	134,296
Net Assets, Beginning of Year	<u>1,040,397</u>	<u>906,101</u>
Net Assets, End of Year	<u>\$ 1,165,632</u>	<u>\$ 1,040,397</u>

Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value.

The following summarizes the operating revenues by source that were used to fund operating activities during the 2008-09 and 2007-08 fiscal years:

**Operating Revenues
(In Thousands)**

	<u>2008-09</u>	<u>2007-08</u>
Net Tuition and Fees	\$ 163,137	\$ 142,201
Grants and Contracts	302,580	299,692
Sales and Services of Educational Departments	1,147	942
Sales and Services of Auxiliary Enterprises	90,694	79,785
Other	<u>7,491</u>	<u>15,923</u>
Total Operating Revenues	<u>\$ 565,049</u>	<u>\$ 538,543</u>

Total operating revenues increased by \$26.5 million with the change being attributable to three factors. Student tuition and fees (after tuition scholarship allowance) increased by \$20.9 million mainly due to a 15 percent increase in undergraduate student tuition rates over the previous fiscal year. Grants and contracts revenue increased by \$2.9 million. Sales and Services of Auxiliary Enterprises increased by \$10.9 million primarily from increases in

Athletics, Study Abroad, and Information Technology Computer Store sales. Other operating revenues decreased \$8.4 million primarily from the self-insurance program.

Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the University’s expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net assets and has displayed the functional classification in the notes to financial statements.

The following summarizes the operating expenses by natural classifications for the 2008-09 and 2007-08 fiscal years:

Operating Expenses		
(In Thousands)		
	<u>2008-09</u>	<u>2007-08</u>
Compensation and Employee Benefits	\$ 601,610	\$ 607,205
Services and Supplies	185,305	191,030
Utilities and Communications	26,260	26,013
Scholarships, Fellowships, and Waivers	80,109	71,133
Depreciation	39,657	46,003
Self-Insurance Claims and Expenses	<u>10,462</u>	<u>4,857</u>
Total Operating Expenses	<u>\$ 943,403</u>	<u>\$ 946,241</u>

Total operating expenses decreased by \$2.8 million with this mainly attributable to decreases in compensation and employee benefits of \$5.6 million, services and supplies of \$5.7 million, and depreciation of \$6.3 million. The decrease in depreciation was primarily due to a change in the in-service dates of several buildings. These decreases were offset by increases in scholarships, fellowships, and waivers of \$9 million and self-insurance claims and expenses of \$5.6 million.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University’s nonoperating revenues and expenses for the 2008-09 and 2007-08 fiscal years:

**Nonoperating Revenues (Expenses)
(In Thousands)**

	<u>2008-09</u>	<u>2007-08</u>
State Appropriations	\$ 346,121	\$ 368,555
Federal and State Student Financial Aid	85,242	70,279
Investment Income	22,956	25,005
Other Nonoperating Revenues	729	409
Loss on Disposal of Capital Assets	(8,422)	
Interest on Capital Asset-Related Debt	(3,973)	(4,028)
Other Nonoperating Expenses	<u>(25,187)</u>	<u>(27,516)</u>
Net Nonoperating Revenues	<u>\$ 417,466</u>	<u>\$ 432,704</u>

Total nonoperating revenues (expenses) decreased by \$15.2 million, due primarily to a 6.1 percent reduction in State appropriations of \$22.4 million based on the State’s reduction of the University’s recurring budget. Other changes included an increase in Federal and State student financial aid of \$15 million and an increase in loss on disposal of capital assets of \$8.4 million primarily due to the replacement of the Marshall Student Center.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and capital grants, contracts, and donations. The following summarizes the University’s other revenues, expenses, gains, or losses for the 2008-09 and 2007-08 fiscal years:

**Other Revenues, Expenses, Gains, or Losses
(In Thousands)**

	<u>2008-09</u>	<u>2007-08</u>
Capital Appropriations	\$ 65,422	\$ 93,386
Capital Grants, Contracts, Donations, and Fees	<u>20,701</u>	<u>15,904</u>
Total	<u>\$ 86,123</u>	<u>\$ 109,290</u>

Total Other Revenues decreased by \$23.2 million. The reduction of \$28 million in capital appropriations was primarily from fewer new projects being funded by the State for the 2008-09 fiscal year. This decrease was offset by a total increase in capital grants, contracts and donations of \$4.8 million comprised of a land donation for Polytechnic Campus in Lakeland of \$17.9 million and a reduction of new projects funded by the Alec P. Courtelis Capital Facility Matching Trust Fund as compared to the 2007-08 fiscal year.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the University’s financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the University’s ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from the capital financing activities include all plant funds and related long-term debt activities. Cash flows from the investing activities show the net source and use of cash related to purchasing or selling investments,

and earning income on those investments. Cash flows from the noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2008-09 and 2007-08 fiscal years:

**Condensed Statement of Cash Flows
(In Thousands)**

	<u>2008-09</u>	<u>2007-08</u>
Cash Provided (Used) by:		
Operating Activities	\$(340,892)	\$(365,522)
Noncapital Financing Activities	365,270	415,947
Capital and Related Financing Activities	(35,247)	41,300
Investing Activities	<u>(240,735)</u>	<u>158,687</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(251,604)	250,412
Cash and Cash Equivalents, Beginning of Year	<u>251,704</u>	<u>1,292</u>
Cash and Cash Equivalents, End of Year	<u>\$ 100</u>	<u>\$ 251,704</u>

Major sources of operating activities included net student tuition and fees (\$161.1million), grants and contracts (\$291.7 million), and sales and services of auxiliary enterprises (\$90.7 million). Included in the calculation of net cash used for operating activities are payments to employees (\$594.7 million) and payments to suppliers (\$212.4 million). These are the two major outflows of operating activities. The net cash used for operating activities decreased by \$24.6 million. The reasons for this change were a combination of decreases in payments to employees and payments to suppliers in the amounts of \$13.2 million and \$1.9 million, respectively, increases in tuition and fees collections of \$16.2 million and sales and services of auxiliary enterprises of \$11.2 million and an increase in scholarships and fellowships of \$9 million.

The net cash provided by noncapital financing activities consists primarily of \$346.1 million of State appropriations received during the 2008-09 fiscal year, which was a reduction of \$22.4 million from fiscal year 2007-08. Also contributing to the reduction in noncapital financing activities was a change of \$47.3 million for funds held for others primarily related to the USF Financing Corporation construction activity in the agency fund.

Cash used by capital and related financing activities increased by \$76.5 million. This was mainly due to decreases in capital appropriations of \$25.3 million, capital grants and contracts of \$13.1 million, and capital subsidies and transfers of \$33.8 million. These amounts were offset by an increase in the purchase or construction of capital assets of \$12.8 million and increases in proceeds from capital debt of \$8.9 million.

Cash used by investing activities increased by \$399.4 million. This was mainly due to a change in investment activities in the purchases of investments of \$390 million offset by a decrease in investment income of \$9.3 million.

**CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS,
AND DEBT ADMINISTRATION**

CAPITAL ASSETS

At June 30, 2009, the University had \$1.2 billion in capital assets, less accumulated depreciation of \$490.4 million, for net capital assets of \$698.9 million. Depreciation charges for the current fiscal year totaled \$39.7 million. In 2009, the University adopted the use of componentized depreciation for buildings and building improvements used in research. The cost of research facilities were separated into building shell, service systems, and fixed equipment components, which are separately depreciated. Annual depreciation is calculated on the straight-line method over useful lives ranging from 15 to 40 years for buildings and building improvements. The net effect of the change in the estimated useful lives was an increase in depreciation expense of \$34.2 million of which \$3.4 million was reported in the fiscal year ended June 30, 2009. Additionally, there was a reduction in accumulated depreciation of \$12.2 million due to a change in the in-service dates for several buildings.

The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30		
(In Thousands)		
	2009	2008
Land	\$ 29,061	\$ 11,151
Construction in Progress	42,755	13,769
Works of Art and Historical Treasures	1,457	679
Buildings	473,185	485,195
Infrastructure and Other Improvements	41,446	39,214
Furniture and Equipment	75,430	73,121
Library Resources	14,442	17,306
Property Under Capital Lease	11,858	12,122
Other Capital Assets	9,307	11,790
Capital Assets, Net	\$ 698,941	\$ 664,347

Additional information about the University's capital assets is presented in the notes to financial statements.

CAPITAL EXPENSES AND COMMITMENTS

Major capital funding in fiscal year 2008-09 was appropriated for the following projects: the Visual and Performing Arts Teaching Facility (\$19.6 million), Polytechnic Campus Phase 1 (\$15 million) and Student Wellness & Nutrition (\$14.9 million).

The following table summarizes the University's major capital commitments as of June 30, 2009:

Capital Expense Commitments		
(In Thousands)		
Current Commitment	Expenses	Commitment Balance
\$ 259,428	\$ 42,755	\$ 216,673

Additional information about the University's capital commitments is presented in the notes to financial statements.

DEBT ADMINISTRATION

As of June 30, 2009, the University had \$83.7 million in outstanding bonds, capital leases, and installment purchase agreements, representing an increase of \$3.9 million, or 4.9 percent, from the prior fiscal year. The increase was a result of a new Statewide bond (\$9 million) offset by principal payments on the outstanding debt.

The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

	2009	2008
Bonds Payable	\$71,379	\$66,959
Installment Purchases	1,260	1,215
Capital Leases	11,100	11,660
Total	\$83,739	\$79,834

Additional information about the University’s long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The budget, including all components, that the Florida Legislature adopted for the State University System for the 2009-10 fiscal year reflected a 3.3 percent increase in the education portion of the budget over the prior year’s total appropriations. However, the Universities received a recurring reduction to their General Revenue appropriation of \$304.3 million of which the University of South Florida’s share was \$43.9 million. The University expects an increase in revenue from student tuition and fees mainly due to increased rates for student tuition and fees.

There was an increase in total net assets of \$125.2 million and this contributed to the sound financial position of the University. The University continues to work on diversifying its revenue base and reducing its dependency on State appropriations. Revenues from sources other than State appropriations, such as sales and services of auxiliary enterprises and student tuition and fees showed increases in the 2008-09 fiscal year and are expected to remain strong. In addition, although contract and grant revenue increased only slightly in 2008-09, the University expects further growth in this area in the future.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, financial statements and notes thereto, and other required supplementary information, or requests for additional financial information should be addressed to Nick Trivunovich, University Controller, 4202 East Fowler Avenue, Tampa, Florida 33620-5800.

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF SOUTH FLORIDA A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET ASSETS June 30, 2009

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 95,711	\$ 30,774,112
Investments	433,945,778	109,944,598
Accounts Receivable, Net	77,104,260	68,441,473
Loans and Notes Receivable, Net	1,468,856	
Due from State	189,280,043	
Due from University		52,971,940
Due from Component Units	16,695,396	9,124,200
Inventories	534,250	792,611
Other Current Assets	4,050,906	8,808,972
Total Current Assets	723,175,200	280,857,906
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	4,506	3,543,949
Restricted Investments	77,191,617	321,067,137
Loans and Notes Receivable, Net	7,152,697	451,364
Depreciable Capital Assets, Net	625,951,688	251,385,578
Nondepreciable Capital Assets	72,988,973	73,213,593
Other Noncurrent Assets	487,605	19,436,664
Total Noncurrent Assets	783,777,086	669,098,285
TOTAL ASSETS	\$ 1,506,952,286	\$ 949,956,191
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 21,166,635	\$ 20,137,547
Construction Contracts Payable	5,130,841	
Salaries and Wages Payable	23,378,702	8,322,712
Deposits Payable	7,161,343	1,723,091
Due to University		16,695,396
Due to Component Units	52,971,940	9,124,200
Deferred Revenue	57,988,076	4,121,453
Long-Term Liabilities - Current Portion:		
Bonds Payable	4,813,273	1,210,000
Certificates of Participation Payable		5,175,000
Loans and Notes Payable		150,000
Installment Purchases Payable	879,442	93,538
Capital Leases Payable	585,000	2,881,020
Estimated Insurance Claims Payable	1,251,488	
Compensated Absences Payable	5,267,685	
Total Current Liabilities	180,594,425	69,633,957

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2009**

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	\$ 66,565,948	\$ 40,520,000
Certificates of Participation Payable		326,110,642
Loans and Notes Payable		1,388,253
Installment Purchases Payable	380,425	93,537
Capital Leases Payable	10,515,000	8,433,034
Federal Advance Payable	5,234,003	
Estimated Insurance Claims Payable	16,750,632	
Compensated Absences Payable	53,129,765	
Other Noncurrent Liabilities		25,063,101
Postemployment Healthcare Benefits Payable	8,150,000	
	160,725,773	401,608,567
Total Noncurrent Liabilities		
	341,320,198	471,242,524
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	567,360,511	16,105,516
Restricted for Nonexpendable:		
Endowment		410,662,252
Restricted for Expendable:		
Debt Service	8,662,814	
Loans	5,925,409	
Capital Projects	216,780,642	
Other	77,560,250	
Unrestricted	289,342,462	51,945,899
	1,165,632,088	478,713,667
TOTAL NET ASSETS		
	\$ 1,506,952,286	\$ 949,956,191

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2009

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$ 56,685,403	\$ 163,136,521	\$ 372,763
Federal Grants and Contracts	169,786,508	372,763
State and Local Grants and Contracts	35,912,945	
Nongovernmental Grants and Contracts	96,880,904	32,998,165
Sales and Services of Educational Departments	1,146,644	
Sales and Services of Auxiliary Enterprises	90,693,545	
Sales and Services of Component Units		223,851,515
Royalties and Licensing Fees		1,461,503
Gifts and Donations		38,815,940
Interest on Loans and Notes Receivable	251,440	
Other Operating Revenues	7,240,217	29,477,871
Total Operating Revenues	565,048,724	326,977,757
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	601,610,300	157,495,680
Services and Supplies	185,304,961	149,380,560
Utilities and Communications	26,259,745	448,287
Scholarships, Fellowships, and Waivers	80,109,132	4,205,550
Depreciation Expense	39,657,447	13,804,529
Self-Insurance Claims and Expenses	10,461,895	
Total Operating Expenses	943,403,480	325,334,606
Operating Income (Loss)	(378,354,756)	1,643,151
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	346,121,028	
Federal and State Student Financial Aid	85,241,703	
Investment Income	22,955,954	(77,989,848)
Other Nonoperating Revenues	729,063	17,556,747
Loss on Disposal of Capital Assets	(8,421,868)	
Interest on Capital Asset-Related Debt	(3,972,406)	(24,002,213)
Other Nonoperating Expenses	(25,187,287)	(383,065)
Net Nonoperating Revenues (Expenses)	417,466,187	(84,818,379)
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	39,111,431	(83,175,228)
Capital Appropriations	65,421,611	
Capital Grants, Contracts, Donations, and Fees	20,701,716	
Increase (Decrease) in Net Assets	125,234,758	(83,175,228)
Net Assets, Beginning of Year	1,040,397,330	559,499,437
Adjustment to Beginning Net Assets		2,389,458
Net Assets, Beginning of Year, as Restated	1,040,397,330	561,888,895
Net Assets, End of Year	\$ 1,165,632,088	\$ 478,713,667

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2009

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 161,127,266
Grants and Contracts	291,714,897
Sales and Services of Educational Departments	1,148,498
Sales and Services of Auxiliary Enterprises	90,688,790
Interest on Loans and Notes Receivable	251,818
Payments to Employees	(594,662,765)
Payments to Suppliers for Goods and Services	(212,424,609)
Payments to Students for Scholarships and Fellowships	(80,109,132)
Net Loans Issued to Students	(667,579)
Payments on Self-Insurance Claims and Expenses	(6,400,127)
Other Operating Receipts	8,440,750
	(340,892,193)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	346,121,028
Federal and State Student Financial Aid	85,241,703
Net Change in Funds Held for Others	(23,900,513)
Operating Subsidies and Transfers	(2,260,351)
Other Nonoperating Expenses	(40,824,488)
Other Nonoperating Receipts	892,868
	365,270,247
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	8,904,989
Capital Appropriations	67,881,506
Capital Grants, Contracts, Donations, and Fees	908,785
Capital Subsidies and Transfers	(15,309,088)
Proceeds from Sale of Capital Assets	6,194
Purchase or Construction of Capital Assets	(88,017,228)
Principal Paid on Capital Debt and Leases	(5,648,916)
Interest Paid on Capital Debt and Leases	(3,972,406)
	(35,246,164)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(255,500,060)
Investment Income	14,764,837
	(240,735,223)
Net Cash Used by Investing Activities	(240,735,223)
Net Decrease in Cash and Cash Equivalents	(251,603,333)
Cash and Cash Equivalents, Beginning of Year	251,703,550
	251,703,550
Cash and Cash Equivalents, End of Year	\$ 100,217

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2009**

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (378,354,756)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	39,657,447
Change in Assets and Liabilities:	
Receivables, Net	(11,114,893)
Loans and Notes Receivable, Net	(667,579)
Interest Receivable	378
Inventories	(91,731)
Other Assets	(1,894,998)
Accounts Payable	1,331,027
Salaries and Wages Payable	(910,877)
Deposits Payable	(14,138)
Compensated Absences Payable	4,009,941
Deferred Revenue	(838,782)
Estimated Insurance Claims Payable	4,061,768
Postemployment Healthcare Benefits Payable	3,935,000
NET CASH USED BY OPERATING ACTIVITIES	\$ (340,892,193)

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 six citizen members and the Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. 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. The Trustees select 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.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, the University is a component unit of the State of Florida, and its financial balances and activity are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Blended Component Unit. Based on the application of the criteria for determining component units, the Medical Professional Liability Self-Insurance Program is included within the University's reporting entity as a blended component unit. The Medical Professional Liability Self-Insurance Program was created in 1972 and provides medical professional liability, comprehensive general liability, hospital professional liability, and patient's property liability covering faculty, staff, and students engaged in medical programs at the University.

Discretely Presented Component Units. Based on the application of the criteria for determining component units, certain affiliated organizations are included within the University's reporting entity as discretely presented component units. The University further categorizes its identified component units as Direct-Support Organizations and Faculty Practice Plan. An annual audit of each discretely presented

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

component unit's financial statements is conducted by independent certified public accountants. The annual report is submitted to the Auditor General and University Board of Trustees. Additional information on the University's discretely presented component units, including copies of audit reports, is available by contacting the University Controller's Office. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

Direct-Support Organizations. The University's direct-support organizations are provided for in Section 1004.28, Florida Statutes, and 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. 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 University of South Florida Medical Services Support Corporation has been developed to provide certain nonphysician personnel in support of the operation of facilities that the University owns or governs and utilized for the education, research, and patient care programs of the College of Medicine.
- 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 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 was organized and operated exclusively 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

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

and constructing facilities on the University campus and, in general, furthering the University's educational 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.

Faculty Practice Plan. The University Medical Service Association, Inc., a Faculty Practice Plan as provided for in Board of Governors Regulation 9.017, provides educationally oriented clinical practice settings and opportunities through which faculty members provide health and medical care to patients as an integral part of their academic activities and their employment as faculty. Because these faculty practice activities generate income, the University is authorized to regulate fees generated from faculty practice and maintain the Faculty Practice Plan for the orderly collection and distribution of fees.

Basis of Presentation. The University's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by the Governmental Accounting Standards Board (GASB). The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
 - Notes to Financial Statements
- Other Required Supplementary Information

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

The University's discretely presented component units use the accrual basis of accounting whereby revenues are earned and expenses are recognized when incurred. Some follow GASB standards of accounting and financial reporting and others follow FASB standards of accounting and financial reporting for not-for-profit organizations.

The University follows FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Interdepartmental sales between auxiliary service departments and other institutional departments have been accounted for as reductions of expenses and not revenues of those departments.

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation on capital assets. Nonoperating revenues include State appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

The statement of net assets is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is the University's policy to first apply the restricted resources to such programs, followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the University and the amount that is actually paid by a student or a third party making payment on behalf of the student. The University applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be third-party aid.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand and cash in demand accounts. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

Capital Assets. University capital assets consist of land, construction in progress, buildings, infrastructure and other improvements, furniture and equipment, property under capital lease, library resources, works of art and historical treasures, and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$1,000 for all tangible personal property and \$100,000 for buildings and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 15 to 40 years, Depending on Construction
- Infrastructure and Other Improvements – 20 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Property Under Capital Lease – 50 years
- Other Capital Assets – 3 to 20 years
- Works of Art and Historical Treasures – 5 years

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of bonds payable, Federal advance payable, installment purchases payable, capital leases payable, self-insurance claims payable, compensated absences payable, and postemployment healthcare benefits payable that are not scheduled to be paid within the next fiscal year. Bonds payable are reported net of unamortized premium or discount and

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

deferred losses on refundings. The University amortizes bond premiums and discounts over the life of the bonds using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the bonds using the straight-line method.

2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the University’s Board of Trustees as authorized by law. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The University’s investments at June 30, 2009, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Debt Service Accounts	\$ 597,927
United States Government Obligations	9,184,291
Federal Agency Obligations	5,686,426
Bonds and Notes	56,923,446
Stocks and Other Equity Securities	2,404,031
Bond Index Mutual Fund	342,314,298
Money Market Mutual Funds	94,026,976
Total University Investments	<u><u>\$ 511,137,395</u></u>

The University’s discretely presented component units’ investments at June 30, 2009, are reported at fair value, as follows:

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Investment Type	University of South Florida Foundation, Inc.	University of South Florida Alumni Association, Inc.	University of South Florida Research Foundation, Inc.	USF Financing Corporation	University Medical Service Association, Inc.	Total
Certificates of Deposit	\$	\$	\$ 4,033,246	\$	\$	\$ 4,033,246
Stocks and Other Equity Securities			1,999,998			1,999,998
Investment Agreements	48,360,885	313,638	1,024,950			49,699,473
Mutual Funds:						
Equities	177,825,600	1,363,417	4,444,401			183,633,418
Bonds	92,686,296	694,669	2,486,566		5,072,099	100,939,630
Money Market Mutual Funds	33,078,006	220,324	3,365,227	34,442,705	19,599,708	90,705,970
Total Component Units Investments	\$ 351,950,787	\$ 2,592,048	\$ 17,354,388	\$ 34,442,705	\$ 24,671,807	\$ 431,011,735

State Board of Administration Debt Service Accounts

The University reported investments at fair value totaling \$597,927 at June 30, 2009, in the State Board of Administration (SBA) Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. The University's investments consist of United States Treasury securities, with maturity dates of more than three months. The University relies on policies developed by the SBA for managing interest rate risk or credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Other Investments

The University's investments (which include those of its blended component unit, the Medical Professional Liability Self-Insurance Program), and investments of the University of South Florida Research Foundation, Inc. (Research Foundation), a discretely presented component unit, consisted of various debt and equity securities and equity, bond, and money market mutual funds. The University's investment policy, the Medical Professional Liability Self-Insurance Program's investment policy, and the Research Foundation's investment policy allow investments in cash and cash equivalents, equities, and fixed income investments. The following risks apply to the University, Medical Professional Liability Self-Insurance Program, and Research Foundation's investments:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University, Medical Professional Liability Self-Insurance Program, and the Research Foundation investment policies limit the fixed income portfolio (United States Treasury securities, United States government agency obligations, mortgage-based securities, corporate debt, State and municipal securities investments) to a weighted average duration of less than five years. For long-term investments, the University and Research Foundation investment policies do not limit the duration for long-term corporate

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

notes or other direct debt obligations. The University and Research Foundation’s investment policies provide for interest rate risk. The risk varies depending on the type of investment.

Credit Risk: Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The Medical Professional Liability Self-Insurance Program’s investment policy provides that all fixed income securities investments shall be rated in the top three rating classifications as defined by both Moody’s and Standard and Poor’s. The University and Research Foundation investment policies provide for credit rate risk. The risk varies depending on the type of investment.

The following interest rate and credit risks apply to the University, Medical Professional Liability Self-Insurance Program, and Research Foundation investments in debt securities and mutual funds at June 30, 2009:

University Debt Investment Maturity and Quality Ratings

Investment Type	Weighted or Effective Average Maturities	Credit Quality Range		Fair Value
		Moody's	Standard and Poor's	
United States Government Obligations	4.11 Years (2)	(1)	(1)	\$ 9,184,291
Federal Agency Obligations	4.37 Years (2)	Not Rated	Not Rated	182,250
Federal Agency Obligations	4.37 Years (2)	Aaa- Aa3	AAA	5,504,176
Bonds and Notes (4)	3.40 Years (2)	Aaa- A3	AAA- A-	5,395,055
Bonds and Notes (5)	5.96 Years (2)	Aaa- Baa1	AAA- BBB+	51,528,391
Bond Index Mutual Fund	2.80 Years (2)	Not Rated	Not Rated	342,314,298
Money Market Mutual Fund	44 Days (3)	Aaa	AAAm	1,214,564
Money Market Mutual Fund	32 Days (3)	Aaa	AAAm	208,580
Money Market Mutual Fund	74 Days (3)	Not Rated	Not Rated	92,603,832
Total				\$ 508,135,437

- Notes: (1) Disclosure of credit risk is not required for this investment type.
 (2) Weighted average maturity.
 (3) Effective average maturity.
 (4) Bonds and notes of the Medical Professional Liability Self-Insurance Program.
 (5) Bonds and notes of the University.

**University of South Florida Research Foundation, Inc.
Investment Maturity**

Investment Type	Investment Maturities (In Years)			
	Fair Value	Less Than 1	1-5	6-10
Certificates of Deposit	\$ 4,033,246	\$ 2,015,503	\$ 2,017,743	\$
Mutual Funds:				
Equities	4,444,401	4,444,401		
Bonds	2,486,566	34,941	1,001,864	1,449,761
Money Market Mutual Funds	3,365,227	3,365,227		
Total	\$ 14,329,440	\$ 9,860,072	\$ 3,019,607	\$ 1,449,761

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

**University of South Florida Research Foundation, Inc.
Quality Ratings (1)**

Investment Type	Fair Value	AAA	AA	A	Less Than A or Not Rated
Mutual Funds:					
Bonds	\$ 2,486,566	\$ 762,399	\$ 59,355	\$ 121,779	\$ 1,543,033
Money Market Mutual Funds	3,365,227	1,804,045	1,200,474	330,131	30,577
Total	\$ 5,851,793	\$ 2,566,444	\$ 1,259,829	\$ 451,910	\$ 1,573,610

Note: (1) Rated by Standard and Poor's.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investments that are held by someone other than the University and not registered in their names. Investments for the University are held in counterparty accounts as custodian. All investments for the Medical Professional Liability Self-Insurance Program are held in counterparty accounts as custodian.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University, Medical Professional Liability Self-Insurance Program and Research Foundation investment policies provide that the maximum amount that may be invested in the securities of an individual issuer not backed by the full faith and credit of the U.S. Government shall not exceed five percent of the market value of the assets of the investment portfolio, and no single corporate bond issuer shall exceed five percent of the market value of the investment portfolio. Direct investments in securities of the U.S. Government, Government agencies and State of Florida Investment Pools, or Pooled Funds comprised solely of U.S. Government Securities are not subject to these restrictions for the University and the Research Foundation. The University did not have any investments in securities of an individual issuer or single corporate bond issue that exceeded five percent of the market value of the investment portfolio at June 30, 2009.

3. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2009, the University reported the following amounts as accounts receivable:

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Description	Amount
Contracts and Grants	\$ 63,885,745
Student Tuition and Fees	7,773,560
Other	5,444,955
Total Accounts Receivable, Net	\$ 77,104,260

Loans and Notes Receivable. Loans and notes receivable represent all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs.

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts, and loans and notes receivable, are reported based upon management’s best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of \$8,921,226 and \$2,382,353, respectively, at June 30, 2009.

No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

4. DUE FROM STATE

This amount primarily consists of Public Education Capital Outlay, Lottery Appropriations, bond proceeds and other allocations due from the State to the University for construction of University facilities.

5. DUE FROM AND TO COMPONENT UNITS/UNIVERSITY

The \$16,695,396 reported as due from component units represents amounts owed by the University of South Florida Foundation, Inc. (\$9,895,147), for the Alec P. Courtelis Facility Matching Gift funds; by the Sun Dome, Inc. (\$302,209), for certain utility, telephone, and salaries and benefits expenditures directly incurred by the University on behalf of the golf course; by the University of South Florida Research Foundation, Inc. (\$6,494,032), for grant and special project-related deferred revenue and administrative overhead rebate; and amounts due from the University of South Florida Medical Services Support Corporation (\$4,008) for overpayments of partial funding of faculty salaries.

The \$52,971,940 reported as due to component units represents amounts owed by the University to the USF Financing Corporation for construction and financing of buildings and pledged revenues (\$51,855,674), and amounts owed to the University Medical Service Association, Inc. (\$1,116,266), for overpayments of partial funding of faculty salaries and other operating expenses at USF Health.

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6. INVENTORIES

Inventories have been categorized into the following two types:

- Departmental Inventories – Those inventories maintained by departments and not available for resale. Departmental inventories are comprised of such items as classroom and laboratory supplies, teaching materials, and office supply items, which are consumed in the teaching and work process. These inventories are normally expensed when purchased and therefore are not reported on the statement of net assets.
- Merchandise Inventory – Those inventories maintained which are available for resale to individuals and other University departments, and are not expensed at the time of purchase. These inventories are reported on the statement of net assets, and are valued at cost using either the moving average method or the first-in, first-out, method.

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2009, is shown below:

Description	Beginning Balance	Adjustments	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 11,150,534	\$	\$ 17,910,000	\$	\$ 29,060,534
Construction in Progress	13,768,864		39,762,281	10,775,866	42,755,279
Works of Art and Historical Treasures	679,104		494,056		1,173,160
Total Nondepreciable Capital Assets	\$ 25,598,502	\$	\$ 58,166,337	\$ 10,775,866	\$ 72,988,973
Depreciable Capital Assets:					
Buildings	\$ 753,992,082	\$	\$ 4,485,536	\$ 16,388,146	\$ 742,089,472
Infrastructure and Other Improvements	65,436,390		5,820,261	21,988	71,234,663
Furniture and Equipment	222,738,302		23,094,787	22,707,790	223,125,299
Library Resources	36,426,393		764,393		37,190,786
Property Under Capital Lease	13,200,000				13,200,000
Works of Art and Historical Treasures		167,866	177,100		344,966
Other Capital Assets	31,093,149	(167,866)	1,162,913	2,945,910	29,142,286
Total Depreciable Capital Assets	1,122,886,316		35,504,990	42,063,834	1,116,327,472
Less, Accumulated Depreciation:					
Buildings	268,796,486	(12,185,371)	24,916,754	12,623,276	268,904,593
Infrastructure and Other Improvements	26,222,350		3,567,113	540	29,788,923
Furniture and Equipment	149,617,780		17,451,815	19,374,594	147,695,001
Library Resources	19,120,083		3,628,496		22,748,579
Property Under Capital Lease	1,078,000		264,000		1,342,000
Works of Art and Historical Treasures		26,310	34,569		60,879
Other Capital Assets	19,303,426	(26,310)	1,980,071	1,421,378	19,835,809
Total Accumulated Depreciation	484,138,125	(12,185,371)	51,842,818	33,419,788	490,375,784
Total Depreciable Capital Assets, Net	\$ 638,748,191	\$ (12,185,371)	\$ (16,337,828)	\$ 8,644,046	\$ 625,951,688

In the 2008-09 fiscal year, the University adopted the use of componentized depreciation for buildings and building improvements used for research. The cost of research facilities were separated into building shell, service systems, and fixed equipment components, which are separately depreciated. Annual depreciation is calculated on the straight-line method over useful lives ranging from 15 to 40 years for buildings and

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building improvements. The net effect of the change in the estimated useful lives is to recognize depreciation expense of \$34,222,006 over a shorter time period, of which \$3,406,254 was reported in the year ended June 30, 2009. The remaining depreciation expense will be prospectively recognized over the respective useful lives of the components in accordance with FASB Statement No. 154. In addition, the adjustment column above reflects a change in accounting estimate related to the depreciation of several buildings due to changes in the in-service dates. This resulted in a reduction of accumulated depreciation of \$12,185,371.

In the 2007-08 fiscal year, depreciable works of art and historical treasures were included in the other capital assets classification. The adjustment column reflects the change.

8. DEFERRED REVENUE

Deferred revenue includes Alec P. Courtelis Matching Trust Fund appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2009, to spend the funds, and amounts received from contracts and grants, and student tuition and fees, prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2009, the University reported the following amounts as deferred revenue:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 41,080,620
Capital Appropriations	12,863,860
Student Tuition and Fees	<u>4,043,596</u>
Total Deferred Revenue	<u><u>\$ 57,988,076</u></u>

9. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2009, include bonds, Federal advance payable, installment purchases, capital leases, self-insurance claims, compensated absences, and postemployment healthcare benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2009, is shown below:

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Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 66,958,634	\$ 8,922,800	\$ 4,502,213	\$ 71,379,221	\$ 4,813,273
Installment Purchases Payable	1,215,021	1,138,328	1,093,482	1,259,867	879,442
Capital Leases Payable	11,660,000		560,000	11,100,000	585,000
Federal Advance Payable		5,234,003		5,234,003	
Estimated Insurance Claims Payable	13,940,352	10,461,895	6,400,127	18,002,120	1,251,488
Compensated Absences Payable	54,387,509	8,494,169	4,484,228	58,397,450	5,267,685
Postemployment Healthcare Benefits Payable	4,215,000	7,360,000	3,425,000	8,150,000	
Total Long-Term Liabilities	\$ 152,376,516	\$ 41,611,195	\$ 20,465,050	\$ 173,522,661	\$ 12,796,888

Bonds Payable. The University had the following bonds payable outstanding at June 30, 2009:

Bond Type and Series	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Auxiliary Revenue Bonds:				
1994 Bookstore	\$ 8,090,000	\$ 3,934,719	5.90 - 6.00	2016
2002 Parking	12,700,000	9,732,662	3.50 - 4.75	2023
2004A Parking	16,000,000	12,399,615	3.10 - 5.00	2024
2006A Parking	17,020,000	15,339,594	4.10 - 5.00	2026
Total Auxiliary Revenue Bonds	53,810,000	41,406,590		
State University System Revenue Bonds:				
1997A Series	9,949,528	6,730,903	4.75 - 5.00	2016
1998 Series	1,753,378	1,189,714	4.40 - 5.00	2023
2001 Series	488,037	383,823	4.00 - 5.00	2026
2003A Series	9,390,370	3,985,600	5.00	2013
2005A Series	5,656,690	4,668,457	3.625 - 4.125	2022
2006A Series	4,371,625	4,173,003	4.00 - 5.00	2030
2008A Series	9,049,060	8,841,131	4.00 - 6.50	2033
Total State University System Revenue Bonds	40,658,688	29,972,631		
Total	\$ 94,468,688	\$ 71,379,221		

Note: (1) Amount outstanding includes unamortized bond discounts and premiums, and deferred losses on refunding issues.

On January 14, 2009, the Florida Board of Governors, on behalf of the University, issued \$9,049,060 in State University System Revenue Bonds, Series 2008A. The proceeds of the bonds will be used for the acquisition and construction of capital assets.

Auxiliary revenue bonds were issued to construct student parking garages and a bookstore. Auxiliary bonds outstanding, which include both term and serial bonds, are secured by a pledge of traffic and parking fees, and bookstore revenues. State University System bonds were issued to acquire and construct various

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University facilities. These bonds are secured by and payable from capital improvement and building fees, which are remitted to the State Board of Education to be used to retire the bonds. The State Board of Education and the State Board of Administration administer the principal and interest payments, investments of sinking fund resources, and compliance with reserve requirements.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 4,813,273	\$ 3,314,418	\$ 8,127,691
2011	5,023,758	3,107,727	8,131,485
2012	5,244,647	2,889,812	8,134,459
2013	5,492,704	2,659,317	8,152,021
2014	4,747,695	2,412,993	7,160,688
2015-2019	20,067,838	8,869,011	28,936,849
2020-2024	17,433,408	4,766,981	22,200,389
2025-2029	6,130,694	1,686,464	7,817,158
2030-2033	2,754,528	425,064	3,179,592
Subtotal	71,708,545	30,131,787	101,840,332
Less: Net Bond Discounts, Premiums, and Losses on Bond Refundings	329,324		329,324
Total	<u>\$ 71,379,221</u>	<u>\$ 30,131,787</u>	<u>\$ 101,511,008</u>

Installment Purchases Payable. The University has entered into several installment purchase agreements for the purchase of equipment reported at \$1,138,328 and a conference membership of \$2,500,000. The stated interest rates ranged from zero percent to .26 percent. Future minimum payments remaining under installment purchase agreements and the present value of the minimum payments as of June 30, 2009, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2010	\$ 881,411
2011	381,412
Total Minimum Payments	1,262,823
Less, Amount Representing Interest	2,956
Present Value of Minimum Payments	<u>\$ 1,259,867</u>

Capital Leases Payable. The Athletic Facility building in the amount of \$13.2 million is being acquired under a capital lease agreement. The stated interest rate is 4.5 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2009, are as follows:

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Fiscal Year Ending June 30	Amount
2010	\$ 1,071,337
2011	1,069,450
2012	1,071,325
2013	1,071,850
2014	1,071,025
2015-2019	5,342,125
2020-2024	4,255,338
Total Minimum Payments	14,952,450
Less, Amount Representing Interest	3,852,450
Present Value of Minimum Payments	\$11,100,000

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors Regulations, University Regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. 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, 2009, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$58,397,450. The current portion of the compensated absences liability is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last three years, calculated as a percentage of those years' total compensated absences liability.

Federal Advance Payable. Represents the University's liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan program. This amount will ultimately be returned to the Federal government should the University cease making Federal Perkins Loans or has excess cash in the loan program.

Postemployment Healthcare Benefits Payable. The University follows Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits provided by the State Group Health Insurance Program.

Plan Description. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent

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multiple-employer defined-benefit plan. The University subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the Plan information is not included in the report of a public employee retirement system or another entity.

Funding Policy. Benefit provisions are pursuant to provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2008-09 fiscal year, 524 retirees received postemployment healthcare benefits. The University provided required contributions of \$3,425,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$5,072,000.

Annual OPEB Cost and Net OPEB Obligation. The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation:

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<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 3,163,000
Amortization of Unfunded Actuarial Accrued Liability	3,512,000
Interest on Normal Cost and Amortization	<u>267,000</u>
Annual Required Contribution	6,942,000
Interest on Net OPEB Obligation	184,000
Adjustment to Annual Required Contribution	<u>(159,000)</u>
Annual OPEB Cost (Expense)	6,967,000
Contribution Toward the OPEB Cost	<u>(3,425,000)</u>
Increase in Net OPEB Obligation	3,542,000
Net OPEB Obligation, Beginning of Year	4,215,000
Actuarial Adjustment to Beginning Net OPEB Obligation	<u>393,000</u>
Net OPEB Obligation, End of Year	<u><u>\$ 8,150,000</u></u>

The University’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2009, and for the transition and preceding years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Beginning Balance, July 1, 2007			(1)
2007-08	\$ 7,483,000	43.7%	\$ 4,215,000
2008-09	6,967,000	49.2%	8,150,000

Note: (1) The first year of implementation was 2007-08.

Funded Status and Funding Progress. As of July 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$101,857,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$101,857,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$387,015,161, for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 26.3 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The University's OPEB actuarial valuation as of July 1, 2007, used the entry-age cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2009, and an actuarial update was used to estimate the 2008-09 fiscal year annual required contribution. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Initial healthcare cost trend rates for employees covered by Medicare was 9.1 percent, and was 9.6 percent for employees not covered by Medicare, grading to 5.5 percent in half-percent steps after 8 years and 9 years, respectively. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009, was 28 years.

10. CERTIFICATES OF PARTICIPATION – COMPONENT UNITS

On May 25, 2005, the USF Financing Corporation issued \$47,995,000 Certificates of Participation Series 2005A and \$92,250,000 Certificates of Participation Series 2005B. The proceeds derived from the issuance of the certificates were used to: (1) finance the acquisition and construction of a housing and parking facility at the University of South Florida St. Petersburg campus; (2) pay certain expenses related to the issuance and sale of the 2005 Certificates including the financial guaranty insurance policy premium; and (3) redeem the outstanding principal for the University's prior housing facilities.

On January 19, 2006, the USF Financing Corporation issued \$41,610,000 Certificates of Participation Series 2005C. The proceeds derived from the issuance of the certificates were used to: (1) finance the construction of a new Marshall Center, a student center and (2) pay certain expenses related to the issuance and sale of the Series 2005C Certificates including the financial guaranty insurance policy premium. On March 16, 2006, the USF Financing Corporation issued \$47,315,000 Certificates of Participation Series

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2006A. The proceeds derived from the issuance of the certificates were used to: (1) finance the acquisition and construction of two fully-equipped medical office buildings consisting of the North Clinic Facility and the South Clinic Facility and (2) pay certain expenses related to the issuance and sale of the Series 2006A Certificates.

On September 25, 2007 the USF Financing Corporation issued \$73,700,000 Certificates of Participation Series 2007 (Housing). The proceeds derived from the issuance of the certificates were used to: (1) finance the costs of acquisition, construction, and installation of the 2007 Housing Project; (2) fund a Capitalized Interest Account; and (3) pay certain expenses related to the issuance and sale of the 2007 Certificates including the financial guaranty insurance policy premium.

On November 19, 2007 the USF Financing Corporation issued \$22,830,000 Certificates of Participation Series 2007 (Health). The proceeds derived from the issuance of the certificates were used to: (1) provide funds for the purpose of financing the acquisition, construction, installation and equipping of a medical office building located on the University's Tampa Campus; (2) fund a Capitalized Interest Account; and (3) pay certain expenses related to the issuance and sale of the 2007 Certificates.

The Series 2005A and 2005B Certificates were issued pursuant to a Master Trust Agreement, dated as of May 1, 2005, as supplemented by the Series 2005 Supplemental Trust Agreement, dated as of May 1, 2005, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. The Series 2005C Certificates were issued pursuant to a Master Trust Agreement, dated as of May 1, 2005, as supplemented by the Series 2005C Supplemental Trust Agreement, dated as of December 1, 2005, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. The Series 2006A Certificates were issued pursuant to a Master Trust Agreement, dated as of March 1, 2006, as supplemented by the Series 2006 Supplemental Trust Agreement, dated as of March 1, 2006, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee.

The Series 2007 Certificates (Housing) were issued pursuant to a Master Trust Agreement, dated May 1, 2005, as supplemented by the Series 2007 Supplemental Trust Agreement, dated as of September 1, 2007, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. The Series 2007 Certificates (Health) were issued pursuant to a Master Trust Agreement, dated March 1, 2006, as supplemented by the Series 2007 Supplemental Trust Agreement, dated as of November 1, 2007, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee.

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For the Series 2005A and Series 2005B Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated as of May 1, 2005, with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the housing and parking facilities are located. All of the right, title, and interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and relet properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

For the Series 2005C Certificates, the USF Property Corporation has entered into a First Ground Lease Supplement, dated as of December 1, 2005, with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the Marshall Center is located. All of the right, title, and interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and relet properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

For the Series 2006A Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated as of March 1, 2006, with the University Board of Trustees whereby the University has leased to the USF Property Corporation interest in the lands on which the North Clinic Facility and the South Clinic Facility were constructed. With respect to the South Clinic Facility site, the University Board of Trustees possesses sublease interest in the site pursuant to a sublease, dated March 15, 2006, between the University and Florida Health Science Center, Inc., d/b/a Tampa General Hospital, whereby Tampa General Hospital has subleased to the University the land on which the South Clinic Facility was constructed. The USF Financing Corporation has subleased both the North Clinic Facility and the South Clinic Facility to the University of South Florida Medical Services Support Corporation (MSSC), a direct-support organization of the University, pursuant to individual office building lease agreements, each dated March 1, 2006.

The University Medical Service Association, Inc. (UMSA), a direct-support organization of the University, has guaranteed all payments due from MSSC to the USF Financing Corporation under both Facility Lease Agreements pursuant to a Lease Guaranty, dated March 1, 2006, between UMSA and the USF Financing Corporation. The USF Financing Corporation's right to receive all payments received from MSSC under the Facility Lease Agreements and any payments required to be made by UMSA under the Lease Guaranty are collaterally assigned to the Trustee pursuant to one or more separate assignments. All of the right, title, and

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interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and relet properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

To provide credit enhancement for the Series 2006A Certificates, a counterparty has issued and delivered to the Trustee two separate irrevocable direct-pay Letters of Credit pursuant to a Reimbursement Agreement by and among the counterparty, the USF Financing Corporation and the USF Property Corporation, dated March 1, 2006. Under each of the Letters of Credit, the Trustee will be entitled to draw up to an amount sufficient to pay 100 percent of the principal amount of the Series 2006A Certificates, plus interest, as applicable. The USF Financing Corporation and the USF Property Corporation agree in the Reimbursement Agreement to reimburse the counterparty for drawings made on either of the Letters of Credit and to make certain other payments to the counterparty.

For the Series 2007 Certificates (Housing), the USF Property Corporation has entered into a Ground Lease Agreement, dated as of September 1, 2007, with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the Magnolia Residence Hall is located. All of the right, title, and interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and relet properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee. The payment of regularly scheduled principal and interest on the Series 2007 Certificates are secured pursuant to a Letter of Credit issued by a counterparty.

For the Series 2007 Certificates (Health), the USF Property Corporation has entered into a Ground Lease Agreement dated as of November 1, 2007, with the University Board of Trustees whereby the University has leased to the USF Property Corporation interest in the lands on which the Medical Office Building is constructed. The USF Financing Corporation has subleased the Medical Office Building to MSSC pursuant to a facility lease agreement, dated November 1, 2007.

To provide credit enhancement for the Series 2007 Certificates (Health), a counterparty has issued and delivered to the Trustee an irrevocable direct-pay Letter of Credit pursuant to a Letter of Credit Agreement by and among the counterparty, the USF Financing Corporation and the USF Property Corporation, dated November 1, 2007. Under the Letter of Credit, the Trustee is entitled to draw up to an amount sufficient to pay 100 percent of the principal amount of the Series 2007 Certificates, plus interest, as applicable. The USF Financing Corporation and the USF Property Corporation agree in the Letter of Credit Agreement to

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reimburse the counterparty for drawings made under the Letter of Credit and to make certain other payments to the counterparty.

The Series 2005A fixed rate Certificates bear a true interest cost to maturity of 4.196 percent. The Series 2005B variable rate Certificates will initially bear interest at auction rates for generally successive seven-day auction periods. The Series 2005C fixed rate Certificates bear a true interest cost to maturity of 4.557 percent. The Series 2006A variable rate Certificates, the Series 2007 variable rate Certificates (Housing) and the Series 2007 variable rate Certificates (Health), which have been hedged to limit the effect of changes in interest rates, bear a true interest cost to maturity of 3.918 percent, 3.582 percent, and 3.714 percent, respectively. The Series 2005A Certificates mature in 2023, the Series 2005B Certificates mature in 2035, the Series 2005C Certificates and Series 2006A Certificates mature in 2036 and the Series 2007 Certificates (Housing) and Series 2007 Certificates (Health) mature in 2037.

Principal and interest payment requirements on the Certificates of Participation outstanding as of June 30, 2009, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 4,590,000	\$ 12,238,574	\$ 16,828,574
2011	6,730,000	12,053,848	18,783,848
2012	6,960,000	11,821,855	18,781,855
2013	7,195,000	11,559,744	18,754,744
2014	7,500,000	11,258,744	18,758,744
2015-2019	42,385,000	51,446,898	93,831,898
2020-2024	52,040,000	41,847,862	93,887,862
2025-2029	63,340,000	30,620,426	93,960,426
2030-2034	77,080,000	17,370,360	94,450,360
2035-2038	51,190,000	3,137,011	54,327,011
Subtotal	319,010,000	203,355,322	522,365,322
Add, Net Premiums and Discounts	1,175,642		1,175,642
Total (1)	<u>\$ 320,185,642</u>	<u>\$ 203,355,322</u>	<u>\$ 523,540,964</u>

Note: (1) This total, plus \$11,100,000 of Certificates of Participation Payable for the University of South Florida Foundation, Inc., comprise the total \$331,285,642 of Certificates of Participation Payable reported under the component units column on the Statement of Net Assets.

To reduce the USF Financing Corporation's risk of interest rate changes with respect to the Series 2005B Certificates, on May 18, 2005, the USF Financing Corporation entered into an interest rate swap agreement with a counterparty with a total notional amount of \$80,000,000. The effect of the agreement is to limit the

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interest expense to 3.2195 percent on \$80,000,000 of the total \$92,250,000 principal in variable rate Series 2005B Certificates. The swap agreement expires July 1, 2015.

On March 8, 2006, the USF Financing Corporation entered into an interest rate swap agreement with a counterparty to limit the effects of changes in interest rates on the Series 2006A Certificates. The initial notional amount of the swap agreement is \$47,315,000. The effect of the agreement is to limit the interest expense to 3.578 percent on the total \$47,315,000 principal in variable rate Series 2006A Certificates. The swap agreement expires July 1, 2016.

On September 13, 2007, the USF Financing Corporation entered into an interest rate swap agreement with a counterparty to limit the effects of changes in interest rates on the Series 2007 Certificates (Housing). The initial notional amount of the swap agreement is \$73,700,000. The effect of the agreement is to limit the interest expense to 3.537 percent on the total \$73,700,000 principal in variable Series 2007 Certificates (Housing). The swap agreement expires July 1, 2037. On March 24, 2008, the USF Financing Corporation and the counterparty amended the interest rate swap agreement increasing the fixed rate to 3.552 percent on the Series 2007 Certificates (Housing) through the remaining term of the swap agreement.

On November 1, 2007, the USF Financing Corporation entered into an interest rate swap agreement with a counterparty to limit the effects of changes in interest rates on the Series 2007 Certificates (Health). The initial notional amount of the swap agreement is \$22,830,000. The effect of the agreement is to limit the interest expense to 3.397 percent on the total \$22,830,000 principal in the variable Series 2007 Certificates (Health). The swap agreement expires July 1, 2018.

The interest rate swap agreements contain collateral provisions to mitigate counterparty credit risk. These collateral provisions apply to two of the USF Financing Corporation's four swap agreements, the Series 2005B Certificates and the Series 2007 Certificates (Housing). These swap agreements require the USF Financing Corporation's insurers to maintain claims paying ability of at least A3 by Moody's Investors Service or A- by Standard and Poor's. Both of the USF Financing Corporation's municipal bond insurers have been downgraded below this level. The policy with one insurer was ultimately terminated in March 2008 in connection with the conversion of the Series 2007 Certificates (Housing).

Due to the downgrade of the USF Financing Corporation's municipal bond insurers below the required credit rating, the USF Financing Corporation was required to post cash collateral for the unrealized loss position in excess of the minimum threshold level. As of June 30, 2009, the posted collateral was \$5,090,000.

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The fair value of the swap agreements is the estimated amount the USF Financing Corporation would receive or pay to terminate the agreement at the reporting date, taking into account the current interest rates and the current creditworthiness of the counterparties. The USF Financing Corporation swap agreements had a cumulative negative fair value of \$20,612,753 which represents the amount to be paid to terminate the agreements at the reporting date.

As of June 30, 2009, the USF Financing Corporation was not exposed to credit risk on its outstanding swap agreements because the swap agreements had a negative fair value. However, should interest rates change and the fair value of the swap agreements become positive, the USF Financing Corporation would be exposed to credit risk in the amount of the derivative's fair value.

The USF Financing Corporation is exposed to the risk (basis risk) that a mismatch occurs between the interest cost of the underlying variable rate certificates and the variable rate payment received on the associated interest rate swap agreement. The USF Financing Corporation mitigates this risk by analyzing potential debt and swap interest rate index structures to ensure an effective hedge of the cash flows and tracks the spread of certificate rates paid to the hedged rates, typically a few basis points.

The USF Financing Corporation is exposed to the risk (rollover risk) that the interest rate swap agreements or letters of credit mature prior to the termination of the variable rate debt. The USF Financing Corporation mitigates this risk by assessing, years in advance of the maturity of these items, the amount of variable rate debt then outstanding and makes provisions for extending these items. Maintaining strong credit ratings for the USF Financing Corporation and the underlying bond system plays an important role in this process. Mitigation is also provided with multiple-year termination dates of the letters of credit.

The USF Financing Corporation is exposed to the risk (termination risk) that the interest rate swap agreements could be terminated by the counterparty. The USF Financing Corporation mitigates this risk with interest rate swap agreements that restrict termination by the counterparty and, if terminated, posted collateral assets would provide a liquid offset. The USF Financing Corporation has an option to terminate the swap agreement and, in the case of the USF Financing Corporation owing a termination payment to the counterparty, the University would use cash balances or funds provided by the refinanced transaction.

11. RETIREMENT PROGRAMS

Florida Retirement System. Essentially, all regular employees of the University are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238,

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Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to four years of credit for military service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability and death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2008-09 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Florida Retirement System, Special Risk	0.00	20.92
Teacher's Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon retirement class or plan in which reemployed.

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The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions, including employee contributions, for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled \$14,209,099, \$14,003,575, and \$14,335,521, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 769 University participants during the 2008-09 fiscal year. Required contributions made to the PEORP totaled \$2,697,671.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

State University System Optional Retirement Program. Section 121.35, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible university instructors and administrators. The Program is designed to aid State universities in recruiting employees by offering more portability to employees not expected to remain in the FRS for six or more years.

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant 10.43 percent of the participant's salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute,

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by payroll deduction, an amount not to exceed the percentage contributed by the university to the participant's annuity account.

There were 2,934 University participants during the 2008-09 fiscal year. Required employer contributions made to the Program totaled \$20,624,912 and employee contributions totaled \$9,398,577.

12. CONSTRUCTION COMMITMENTS

The University’s major construction commitments at June 30, 2009, are as follows:

Project Name	Total Commitment	Complete to Date	Commitment Balance
Visual and Performing Arts Teaching Facility	\$ 46,605,935	\$ 4,148,133	\$ 42,457,802
USF Student Wellness/Nutrition Center for Advanced Health Care	14,876,702	221	14,876,481
Patel Center for Global Solutions	8,667,948	1,548,030	7,119,918
Interdisciplinary Science Teaching and Research Facility	24,909,276	995,113	23,914,163
Infrastructure (PECO)	58,377,764	1,694,904	56,682,860
	45,925,000	9,925,943	35,999,057
Subtotal	199,362,625	18,312,344	181,050,281
Other Projects (1)	60,065,775	24,442,935	35,622,840
Total	\$ 259,428,400	\$ 42,755,279	\$ 216,673,121

Note: (1) Individual projects with current commitment balances less than \$5 million at June 30, 2009.

13. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(3), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, and fleet automotive liability. During the 2008-09 fiscal year, for property losses, the State retained the first \$2 million of losses for each occurrence with an annual aggregate retention of \$40 million for named wind and flood losses and no annual aggregate retention for all other named perils. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$50 million for named wind and flood. For perils other than named wind and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action

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coverage. All losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$100,000 per person and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three fiscal years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain healthcare services through participation in the State group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State’s risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State’s group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

University Self-Insurance Program. The Medical Professional Liability Self-Insurance Program provides medical professional liability, comprehensive general liability, hospital professional liability, and patient’s property liability covering faculty, staff, and students engaged in medical programs at the University of South Florida.

The Program’s retained risks range from payments on tort claims limited to \$100,000 per claim and \$200,000 per occurrence to \$3 million per occurrence for professional liability up to an aggregate of \$10 million for all payments made on claims arising during the fiscal year. Losses in excess of the individual and aggregate amounts, up to \$15 million, are insured commercially. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The Program’s estimated liability for unpaid claims at fiscal year-end is the result of both management and actuarial analyses and includes an amount for claims that have been incurred but not reported. Changes in the Program’s claim liability amount for the fiscal years ended June 30, 2008, and June 30, 2009, are presented in the following table:

Fiscal Year	Claims Liabilities Beginning of Year	Claims and Changes in Estimates	Claim Payments	Claims Liabilities End of Year
2007-08	\$ 19,341,719	\$ 4,856,793	\$ (10,258,160)	\$ 13,940,352
2008-09	13,940,352	10,461,895	(6,400,127)	18,002,120

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14. LITIGATION

The University is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the University’s legal counsel and management, should not materially affect the University’s financial position.

15. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of academic departments for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO.

Functional Classification	Amount
Instruction	\$ 265,235,331
Research	223,839,442
Public Service	7,227,747
Academic Support	80,437,913
Student Services	33,282,907
Institutional Support	59,428,481
Operation and Maintenance of Plant	54,464,213
Scholarships and Fellowships	83,573,248
Auxiliary Operations	95,951,291
Depreciation	39,657,447
Loan Operations	305,460
Total Operating Expenses	\$ 943,403,480

16. SEGMENT INFORMATION

A segment is defined as an identifiable activity (or grouping of activities) that has one or more bonds or other debt instruments outstanding with a revenue stream pledged in support of that debt. In addition, the activity’s related revenues, expenses, gains, losses, assets, and liabilities are required to be accounted for separately. The following financial information for the University’s Parking Facilities represents identifiable activities for which one or more bonds are outstanding:

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Condensed Statement of Net Assets

	<u>Parking Facility Revenue Bonds</u>
Assets	
Current Assets	\$ 11,790,413
Capital Assets, Net	49,008,213
Other Noncurrent Assets	<u>2,811,962</u>
Total Assets	<u>63,610,588</u>
Liabilities	
Current Liabilities	2,250,902
Noncurrent Liabilities	<u>35,751,254</u>
Total Liabilities	<u>38,002,156</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	11,880,219
Restricted - Expendable	7,590,984
Unrestricted	<u>6,137,229</u>
Total Net Assets	<u>\$ 25,608,432</u>

**Condensed Statement of Revenues, Expenses,
and Changes in Net Assets**

	<u>Parking Facility Revenue Bonds</u>
Operating Revenues	\$ 12,369,715
Depreciation Expense	(1,700,210)
Other Operating Expenses	<u>(7,309,703)</u>
Operating Income	<u>3,359,802</u>
Nonoperating Revenues (Expenses):	
Nonoperating Revenue	1,276,316
Interest Expense	(1,762,097)
Other Nonoperating Expense	<u>(20,448)</u>
Net Nonoperating Expenses	<u>(506,229)</u>
Increase in Net Assets	2,853,573
Net Assets, Beginning of Year	<u>22,754,859</u>
Net Assets, End of Year	<u>\$ 25,608,432</u>

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Condensed Statement of Cash Flows

	Parking Facility Revenue Bonds
Net Cash Provided (Used) by:	
Operating Activities	\$ 5,055,425
Capital and Related Financing Activities	(4,421,549)
Investing Activities	(634,894)
Net Decrease in Cash and Cash Equivalents	(1,018)
Cash and Cash Equivalents, Beginning of Year	5,386
Cash and Cash Equivalents, End of Year	\$ 4,368

17. PRIOR PERIOD ADJUSTMENTS – COMPONENT UNIT

The University’s direct-support organization, University of South Florida Research Foundation, Inc., reported adjustments to beginning net assets in accordance with FASB Statement No. 154. The following is a summary of adjustments to beginning net assets reported in the statement of revenues, expenses, and changes in net assets to correct prior year accounting errors:

Description	Amount
To Increase Beginning Net Asset Balance for Prior Year Overstatement of Accounts Payable and Accrued Liabilities	\$ 2,261,192
To Decrease Beginning Net Asset Balance for Prior Year Overstatement of Building Costs	(8,028,543)
To Decrease Beginning Net Asset Balance for Prior Year Understatement of Building Depreciation Costs	(45,086)
To Increase Beginning Net Asset Balance for Prior Year Understatement of Cash and Cash Equivalents	8,201,895
Total	\$ 2,389,458

18. DEFICIT UNRESTRICTED NET ASSETS – COMPONENT UNIT

The University’s direct-support organization, University of South Florida Medical Services Support Corporation (MSSC), had a deficit net asset balance of \$2,366,777 at June 30, 2009. This deficit balance can be directly attributed to an accrued liability of approximately \$5,301,000 related to an interest rate swap agreement due to USF Financing Corporation, a USF direct-support organization (see note 10).

The University Medical Service Association, Inc. (UMSA), a component unit of the University, has guaranteed all payments due from MSSC to the USF Financing Corporation under three facility lease agreements pursuant to a Lease Guaranty (two of which are dated March 1, 2006 and one which is dated

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November 19, 2007) between UMSA and the USF Financing Corporation. These agreements would guarantee any actual liability resulting from the interest rate swap agreements.

19. COMPONENT UNITS

The University has nine component units as discussed in note 1. These component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is from the most recently available audited financial statements for the component units.

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	Component Units							Other Component Unit	Total	
	University of South Florida Foundation, Inc.	University of South Florida Alumni Association, Inc.	USF Health Professions Conferencing Corporation	University of South Florida Medical Services Support Corporation	Sun Dome, Inc.	University of South Florida Research Foundation, Inc.	USF Financing Corporation and USF Property Corporation (1)			Total Direct- Support Organizations
Condensed Statement of Net Assets										
Assets:										
Current Assets	\$ 104,644,889	\$ 2,663,914	\$ 11,334,559	\$ 5,965,914	\$ 1,035,939	\$ 19,151,848	\$ 64,633,008	\$ 209,430,071	\$ 71,427,835	\$ 280,857,906
Capital Assets, Net	3,030,829		3,533,662	10,640,689	2,125,977	47,479,833	251,711,000	318,521,990	6,077,181	324,599,171
Other Noncurrent Assets	297,724,432					12,263,671	34,442,705	344,430,808	68,306	344,499,114
Total Assets	405,400,150	2,663,914	14,868,221	16,606,603	3,161,916	78,895,352	350,786,713	872,382,869	77,573,322	949,956,191
Liabilities:										
Current Liabilities	14,652,657	1,095,409	2,585,127	12,419,180	1,369,569	11,808,732	14,578,318	58,508,992	11,124,965	69,633,957
Noncurrent Liabilities	10,515,000		1,960,078	6,554,200	1,400,546	44,970,348	336,208,395	401,608,567		401,608,567
Total Liabilities	25,167,657	1,095,409	4,545,205	18,973,380	2,770,115	56,779,080	350,786,713	460,117,559	11,124,965	471,242,524
Net Assets:										
Invested in Capital Assets, Net of Related Debt	3,030,829		3,533,662	1,671,625	492,734	1,299,485		10,028,335	6,077,181	16,105,516
Restricted	404,889,045	234,008	5,539,199					410,662,252		410,662,252
Unrestricted	(27,687,381)	1,334,497	1,250,155	(4,038,402)	(100,933)	20,816,787		(8,425,277)	60,371,176	51,945,899
Total Net Assets	\$ 380,232,493	\$ 1,568,505	\$ 10,323,016	\$ (2,366,777)	\$ 391,801	\$ 22,116,272	\$	\$ 412,265,310	\$ 66,448,357	\$ 478,713,667
Condensed Statement of Revenues, Expenses, and Changes in Net Assets										
Operating Revenues	\$ 40,575,999	\$ 2,153,941	\$ 21,184,373	\$ 55,688,222	\$ 3,967,027	\$ 10,167,664	\$ 28,866,651	\$ 162,603,877	\$ 164,373,880	\$ 326,977,757
Operating Expenses	44,233,555	2,083,948	18,153,733	56,520,867	4,401,844	6,986,738	20,676,741	153,057,426	172,277,180	325,334,606
Operating Income (Loss)	(3,657,556)	69,993	3,030,640	(832,645)	(434,817)	3,180,926	8,189,910	9,546,451	(7,903,300)	1,643,151
Net Nonoperating Revenues (Expenses)	(67,789,477)	(529,472)	868,183	899,945	(13,765)	(5,442,256)	(8,189,910)	(80,196,752)	(4,621,627)	(84,818,379)
Increase (Decrease) in Net Assets	(71,447,033)	(459,479)	3,898,823	67,300	(448,582)	(2,261,330)		(70,650,301)	(12,524,927)	(83,175,228)
Net Assets, Beginning of Year	451,679,526	2,027,984	6,424,193	(2,434,077)	840,383	21,988,144		480,526,153	78,973,284	559,499,437
Adjustment to Beginning Net Assets (2)						2,389,458		2,389,458		2,389,458
Net Assets, Beginning of Year, as Restated	451,679,526	2,027,984	6,424,193	(2,434,077)	840,383	24,377,602		482,915,611	78,973,284	561,888,895
Net Assets, End of Year	\$ 380,232,493	\$ 1,568,505	\$ 10,323,016	\$ (2,366,777)	\$ 391,801	\$ 22,116,272	\$	\$ 412,265,310	\$ 66,448,357	\$ 478,713,667

Notes: (1) The USF Financing Corporation's and USF Property Corporation's financial statements were consolidated due to the USF Financing Corporation's ongoing economic interest in the USF Property Corporation and its ability to control the activities of the USF Property Corporation through common boards of directors.

(2) Adjustment to correct prior year accounting errors (see note 17 to the financial statements).

**UNIVERSITY OF SOUTH FLORIDA
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
POSTEMPLOYMENT HEALTHCARE BENEFITS PLAN
JUNE 30, 2009**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b) (2)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007 (1)	\$ -	\$ 109,667,000 101,857,000	\$ 109,667,000 101,857,000	0% 0%	\$ 393,844,424 387,015,161	27.8% 26.3%

Notes: (1) The most recent actuarial valuation was July 1, 2007. An update, dated October 14, 2008, to the July 1, 2007, valuation took into account anticipated PPO cost increases, HMO cost increases, and retiree contribution increases used in the July 31, 2008, report on the Financial Outlook for the State Employees' Group Self-Insurance Trust Fund.

(2) The actuarial cost method is used by the institution is the entry-age actuarial cost method.



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the basic financial statements of the University of South Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2009, which collectively comprise the University's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, with which noncompliance could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to University management in our operational audit report No. 2010-077.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 8, 2010