

UNIVERSITY OF SOUTH FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2010



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2009-10 fiscal year are listed below:

John B. Ramil, Vice Chair to 6-23-10, Chair from 6-24-10
Harold W. Mullis, Jr., from 1-06-10, Vice Chair from 6-24-10
Rhea F. Law, Chair to 6-23-10
Lee E. Arnold Jr.
Dr. Laurence G. Branch (1)
Margarita R. Cancio, M.D.
Gene Engle
Sonja Garcia to 1-05-10 (2)
Cesar Hernandez from 5-04-10 (3)
Brian D. Lamb from 1-06-10
Kiran C. Patel, M.D., to 1-05-10 (2)
Debbie Nye Sembler
Byron E. Shinn from 3-09-10
Jan E. Smith to 8-24-09 (4)
Juan Soltero to 5-03-10 (3)
Robert L. Soran to 1-05-10
Sherrill Tomasino (5)
Jordan B. Zimmerman from 3-09-10

Dr. Judy L. Genshaft, President

Notes: (1) Faculty Senate chair.
(2) Positions remained vacant from January 6, 2010, to March 8, 2010.
(3) Student body president.
(4) Position remained vacant from August 25, 2009, to December 9, 2009.
(5) Board member resigned her position on December 10, 2009, to complete Jan E. Smith's term. Her position was vacant from December 10, 2009, to January 5, 2010, until Brian D. Lamb was appointed to the Board.

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 Cathi Davis, 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) 487-9175; 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:

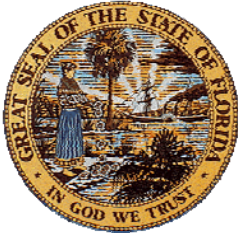
- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- 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, 2010. 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, in both 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.

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.



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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, 2010, which collectively comprise the University's basic financial statements as shown on pages 12 through 46. 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' column. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, 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, 2010, 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.

As discussed in note 2 to the financial statements, the University changed its reporting of the liability for Capital Improvement (Bookstore and Parking) Revenue Bonds from bonds payable to capital improvement debt payable during the 2009-10 fiscal year. This change affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

As discussed in note 3 to the financial statements, the University discontinued reporting bonds payable for State University System Capital Improvement Trust Fund Revenue Bonds on the University's statement of net assets during the 2009-10 fiscal year. This change affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

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.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 11 and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on pages 47 and 48 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
January 21, 2011

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, 2010, 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 \$1.6 billion at June 30, 2010. This balance reflects a \$98.5 million, or 6.5 percent, increase from the 2008-09 fiscal year. Liabilities decreased by \$3 million, or 0.9 percent, totaling \$338.4 million at June 30, 2010, compared to \$341.3 million at June 30, 2009. As a result, the University's net assets increased by \$101.5 million, reaching a year-end balance of \$1.3 billion.

The University's operating revenues totaled \$597.5 million for the 2009-10 fiscal year, representing a 5.7 percent increase over the 2008-09 fiscal year due mainly to increases in student tuition and fees, grants and contracts, and sales and services of auxiliary enterprises. Operating expenses totaled \$1 billion for the 2009-10 fiscal year, representing an increase of 7.7 percent over the 2008-09 fiscal year due mainly to increases in expenses for compensation and employee benefits; services and supplies; scholarships, fellowships and waivers; 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. 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)

	2010	2009
Assets		
Current Assets	\$ 729,415	\$ 723,175
Capital Assets, Net	787,634	698,941
Other Noncurrent Assets	88,400	84,836
Total Assets	1,605,449	1,506,952
Liabilities		
Current Liabilities	198,323	180,594
Noncurrent Liabilities	140,038	160,726
Total Liabilities	338,361	341,320
Net Assets		
Invested in Capital Assets, Net of Related Debt	683,449	567,361
Restricted for Expendable	266,100	308,929
Unrestricted	317,539	289,342
Total Net Assets	\$ 1,267,088	\$ 1,165,632

The University's assets totaled \$1.6 billion at June 30, 2010. This balance reflects a \$98.5 million, or 6.5 percent, increase over the 2008-09 fiscal year. This increase is attributable to an increase in current assets of \$6.2 million, an increase in net capital assets of \$88.7 million, and an increase in other noncurrent assets of \$3.6 million.

Current cash and investments for the University increased a total of \$59.9 million between the two fiscal years as a result of the University's positive change in net assets. Accounts receivable decreased by a total of \$11.7 million. This was attributable to a reduction in contracts and grants receivable of \$14.1 million offset by a net increase in other receivables of \$2.4 million. In addition, amounts due from the State decreased by \$49.7 million as a result of the University utilizing funds owed by the State for construction. Due from component units increased \$8.5 million primarily due to an increase in Courtelis matching funds from \$12.8 million to \$17.3 million.

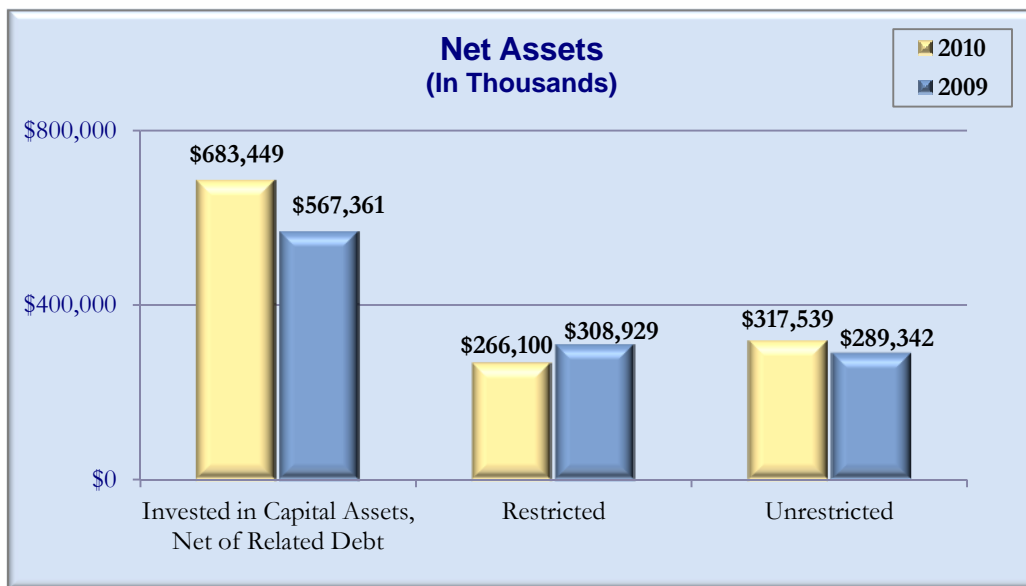
Net capital assets increased by \$88.7 million due primarily to an increase in activity for construction in progress and the addition of capital assets from the Johnnie B. Byrd, Sr., Alzheimer Institute. The increase of \$3.6 million in other noncurrent assets is largely attributable to increased balances in cash and investments in the construction funds.

Total liabilities decreased by \$3 million, which consisted of a decrease in noncurrent liabilities of \$20.7 million offset by an increase in current liabilities of \$17.7 million. The major decreases in noncurrent liabilities were associated with a change in reporting bonds and revenue certificates payable for State University System Capital Improvement Trust Fund Revenue Bonds. In prior fiscal years, the liability for these bonds was reported on the University's statement of net assets. It has subsequently been determined that these bonds are not University debt (see note 3 to the financial statements – Prior Period Adjustments). Other changes to noncurrent liabilities are related to increases to both compensated absences liability and other postemployment benefits payable of \$1.7 million and \$8.8 million, respectively. Increases in current liabilities were primarily construction contracts payable of \$6.8 million, accrued salaries and wages payable of \$4.8 million, and deferred revenues of \$5.9 million.

The combination of changes in both total assets of \$98.5 million and total liabilities of \$3 million resulted in a net increase in total net assets of \$101.5 million. This increase in total net assets is attributable to increases in capital

assets, net of related debt of \$116.1 million and unrestricted net assets of \$28.2 million offset by a reduction in restricted net assets of \$42.8 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 2009-10 and 2008-09 fiscal years.



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 2009-10 and 2008-09 fiscal years:

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

	<u>2009-10</u>	<u>2008-09</u>
Operating Revenues	\$ 597,474	\$ 565,049
Operating Expenses	<u>(1,016,084)</u>	<u>(943,403)</u>
Operating Loss	(418,610)	(378,354)
Net Nonoperating Revenues	<u>424,639</u>	<u>417,466</u>
Income Before Other Revenues, Expenses, Gains, or Losses	6,029	39,112
Other Revenues, Expenses, Gains, or Losses	<u>65,598</u>	<u>86,123</u>
Net Increase In Net Assets	<u>71,627</u>	<u>125,235</u>
Net Assets, Beginning of Year	1,165,632	1,040,397
Adjustments to Beginning Net Assets (1)	<u>29,829</u>	
Net Assets, Beginning of Year, as Restated	<u>1,195,461</u>	<u>1,040,397</u>
Net Assets, End of Year	<u>\$1,267,088</u>	<u>\$1,165,632</u>

Note: (1) As discussed in note 3 to the financial statements, the University's beginning net assets for the 2009-10 fiscal year was increased for a change in reporting bonds payable.

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 2009-10 and 2008-09 fiscal years:

**Operating Revenues
(In Thousands)**

	<u>2009-10</u>	<u>2008-09</u>
Net Tuition and Fees	\$ 171,139	\$ 163,137
Grants and Contracts	318,058	302,580
Sales and Services of Educational Departments	696	1,147
Sales and Services of Auxiliary Enterprises	99,850	90,694
Other	<u>7,731</u>	<u>7,491</u>
Total Operating Revenues	<u>\$ 597,474</u>	<u>\$ 565,049</u>

Total operating revenues increased by \$32.4 million with the change attributable to three factors. Student tuition and fees (after tuition scholarship allowance) increased by \$8 million due to increases in student fees assessed. Revenues for grants and contracts increased by \$15.5 million to a total of \$318 million for the 2009-10 fiscal year as a result of receiving additional Federal grants. Sales and services of auxiliary enterprises increased by \$9.2 million primarily from increases in Housing revenues (\$4.5 million) and additional revenue generated from the rental of tower space frequency for educational broadband use (\$4.6 million).

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 2009-10 and 2008-09 fiscal years:

Operating Expenses (In Thousands)		
	<u>2009-10</u>	<u>2008-09</u>
Compensation and Employee Benefits	\$ 639,951	\$ 601,610
Services and Supplies	206,631	185,305
Utilities and Communications	27,117	26,260
Scholarships, Fellowships, and Waivers	89,620	80,109
Depreciation	48,974	39,657
Self-Insurance Claims	3,791	10,462
Total Operating Expenses	<u>\$ 1,016,084</u>	<u>\$ 943,403</u>

Total operating expenses increased by \$72.7 million with this mainly attributable to increases in compensation and employee benefits of \$38.3 million; services and supplies of \$21.3 million; utilities and communication of \$0.9 million; scholarships, fellowships and waivers of \$9.5 million; and depreciation of \$9.3 million. These increases were offset by a decrease in self-insurance claims and expenses of \$6.6 million. The increase to compensation and employee benefits was due to an increase in staffing with University growth and the addition of the Johnnie B. Byrd, Sr., Alzheimer Institute, as well as the payment of bonuses, promotions, and an increase in benefits cost. The increase to services and supplies was due to increased contract and grant expenses and the increase to scholarships, fellowships, and waivers are directly related to the increase in funding for student financial assistance.

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 2009-10 and 2008-09 fiscal years:

Nonoperating Revenues (Expenses) (In Thousands)		
	<u>2009-10</u>	<u>2008-09</u>
State Appropriations	\$ 304,976	\$ 346,121
Federal and State Student Financial Aid	109,441	85,242
State Appropriated American Recovery and Reinvestment Act Funds	23,360	
Investment Income	26,588	22,956
Other Nonoperating Revenues	2,664	729
Loss on Disposal of Capital Assets	(5,591)	(8,422)
Interest on Capital Asset-Related Debt	(2,324)	(3,973)
Other Nonoperating Expenses	(34,475)	(25,187)
Net Nonoperating Revenues	<u>\$ 424,639</u>	<u>\$ 417,466</u>

Total nonoperating revenues (expenses) increased by \$7.2 million. This is made up of a reduction in State appropriations of \$41.1 million based on the State's reduction of the University's recurring budget. This decrease was partially offset by funding from State appropriated American Recovery and Reinvestment Act (ARRA) funds of \$23.4 million and increases in Federal and State student financial aid of \$24.2 million.

Other Revenues, Expenses, Gains, or Losses

This category is composed of capital appropriations and capital grants, contracts, donations and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2009-10 and 2008-09 fiscal years:

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

	<u>2009-10</u>	<u>2008-09</u>
Capital Appropriations	\$ 26,988	\$ 65,422
Capital Grants, Contracts, Donations, and Fees	<u>38,610</u>	<u>20,701</u>
Total	<u>\$ 65,598</u>	<u>\$ 86,123</u>

Total other revenues decreased by \$20.5 million. The reduction of \$38.4 million in capital appropriations resulted from fewer new projects being funded by the State in the 2009-10 fiscal year. This decrease was offset by an increase in capital grants, contracts, donations, and fees of \$17.9 million comprised mostly of the acquisition of the Johnnie B. Byrd, Sr., Alzheimer Institute's building and equipment.

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 capital financing activities include all plant funds and related long-term debt activities. Cash flows from 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 noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2009-10 and 2008-09 fiscal years:

Condensed Statement of Cash Flows (In Thousands)

	<u>2009-10</u>	<u>2008-09</u>
Cash Provided (Used) by:		
Operating Activities	\$ (339,387)	\$ (340,892)
Noncapital Financing Activities	393,460	365,270
Capital and Related Financing Activities	(15,883)	(35,247)
Investing Activities	<u>41,488</u>	<u>(240,735)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	79,678	(251,604)
Cash and Cash Equivalents, Beginning of Year	<u>100</u>	<u>251,704</u>
Cash and Cash Equivalents, End of Year	<u>\$ 79,778</u>	<u>\$ 100</u>

Major sources of operating activities included net student tuition and fees (\$169.8 million), grants and contracts (\$333.1 million), and sales and services of auxiliary enterprises (\$100.1 million). Included in the calculation of net cash

used for operating activities are two major outflows; payments to employees (\$624.8 million) and payments to suppliers (\$232.2 million). The net cash used for operating activities decreased by \$1.5 million. The change resulted from a combination of increases in payments to employees (\$30.2 million), payments to suppliers (\$19.8 million), and payments to students for scholarships and fellowships (\$9.5 million), offset by increases in revenue from tuition and fees (\$8.6 million), grants and contracts (\$41.4 million) and sales and services of auxiliary enterprises (\$9.5 million).

The net cash provided by noncapital financing activities consists primarily of \$328.3 million of State appropriations (including \$23.3 million of State appropriated ARRA funds) received during the 2009-10 fiscal year, which was a reduction of \$17.8 million from the 2008-09 fiscal year. Also contributing to the increase in noncapital financing activities was a change of \$24.2 million for noncapital grants, contracts, and donations related to the Federal and State financial aid and a change of \$17.1 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 decreased by \$19.4 million. This was created by decreases in proceeds from capital debt of \$8.9 million and increases in capital appropriations of \$13 million, capital grants and contracts of \$2 million, and capital subsidies and transfers of \$19.3 million. These amounts were offset by an increase in the purchase or construction of capital assets of \$10.4 million.

Cash provided by investing activities increased by \$282.2 million. This was mainly due to a change in investment activities in the sale of investments of \$278.7 million and an increase in investment income of \$3.6 million.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2010, the University had \$1.3 billion in capital assets, less accumulated depreciation of \$499.6 million, for net capital assets of \$787.6 million. Depreciation charges for the current fiscal year totaled \$49 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30 (In Thousands)

	2010	2009
Land	\$ 29,061	\$ 29,061
Construction in Progress	121,157	42,755
Buildings	486,349	473,185
Infrastructure and Other Improvements	42,885	41,446
Furniture and Equipment	77,386	75,430
Library Resources	9,221	14,442
Property Under Capital Lease	11,594	11,858
Works of Art and Historical Treasures	1,965	1,457
Other Capital Assets	8,016	9,307
Capital Assets, Net	\$ 787,634	\$ 698,941

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

CAPITAL EXPENSES AND COMMITMENTS

Major capital funding in the 2009-10 fiscal year was appropriated for the following continued projects: Polytechnic Campus (\$11.4 million) and the Interdisciplinary Science Teaching and Research Facility (\$4.9 million).

The following table summarizes the University's major capital commitments as of June 30, 2010:

**Capital Expense Commitments
(In Thousands)**

<u>Current Commitment</u>	<u>Expenses</u>	<u>Commitment Balance</u>
<u>\$ 299,671</u>	<u>\$121,157</u>	<u>\$ 178,514</u>

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

DEBT ADMINISTRATION

As of June 30, 2010, the University had \$50.2 million in outstanding capital improvement debt, installment purchase agreements, and capital leases representing a decrease of \$33.5 million, or 40 percent, from the prior fiscal year. This decrease was directly associated with the prior period adjustment for reporting of State University System Capital Improvement Trust Fund Revenue Bonds (see note 3 – Prior Period Adjustments). The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

**Long-Term Debt, at June 30
(In Thousands)**

	<u>2010</u>	<u>2009</u>
Capital Improvement Debt Payable (1)	\$ 38,968	\$
Bonds Payable (1)		71,379
Installment Purchases Payable	729	1,260
Capital Leases Payable	<u>10,515</u>	<u>11,100</u>
Total	<u>\$ 50,212</u>	<u>\$ 83,739</u>

Note: (1) The University reclassified Bonds Payable to Capital Improvement Debt to report as collateralized debt. See note 2 to the financial statements.

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 State and national economic downturn has continued to impact the University. The State University System received a base budget reduction of \$62.1 million of which the University’s share was \$9.6 million. The State appropriation for the University for the 2010-11 fiscal year is \$323.3 million, an increase of \$18.3 million, attributed mainly to special revenues and an increase in benefits. To partially offset general revenue reductions, the Florida Legislature has authorized tuition increases over the past few years combined with technology fees and distance learning fees, which provide additional resources to support a balanced budget and expansion of academic programs and services to support students. Increases in tuition and fees for the 2010-11 fiscal year will provide additional resources.

For the 2010-11 fiscal year the University has been appropriated \$22.3 million of ARRA funds, which is slightly reduced from the 2009-10 fiscal year amount of \$23.4 million. These Federal stimulus funds have been made available in the 2009-10 and 2010-11 fiscal years and have helped offset the reductions from State general revenue appropriations, but will need to be replaced in the 2011-12 fiscal year by either a new funding source or further reductions in operating expenses.

The State is not expected to fund a significant increase in the University’s base for the 2011-12 fiscal year. The current economic conditions are likely to result in lower State funding per student. This implies that tuition and fees gradually will become a larger share of the general revenue budget. Management continues to look for and implement

means to conserve resources and cut operational costs. In addition, the University continues to expect increases in other revenue sources, such as auxiliary operations and contract and grant revenue for the foreseeable future.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Linda Peterson, 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, 2010

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 70,660,280	\$ 34,893,097
Investments	423,243,073	122,110,196
Accounts Receivable, Net	65,372,872	74,378,896
Loans and Notes Receivable, Net	1,414,020	
Due from State	139,625,790	
Due from University		51,967,917
Due from Component Units	25,161,968	10,720,440
Inventories	967,585	721,340
Other Current Assets	2,969,391	13,713,360
	729,414,979	308,505,246
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	9,117,745	2,914,120
Restricted Investments	72,983,069	360,263,641
Loans and Notes Receivable, Net	5,975,461	250,068
Depreciable Capital Assets, Net	635,601,238	311,064,964
Nondepreciable Capital Assets	152,033,067	14,633,066
Other Noncurrent Assets	323,428	19,443,195
	876,034,008	708,569,054
	\$ 1,605,448,987	\$ 1,017,074,300
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 22,740,350	\$ 20,707,609
Construction Contracts Payable	11,956,899	
Salaries and Wages Payable	28,187,940	10,919,995
Deposits Payable	9,302,730	1,742,759
Due to University		25,161,968
Due to Component Units	51,967,917	10,720,440
Deferred Revenue	63,907,065	3,701,083
Long-Term Liabilities - Current Portion:		
Bonds Payable		1,460,332
Certificates of Participation Payable		7,340,000
Capital Improvement Debt Payable	2,543,827	
Loans and Notes Payable		150,000
Installment Purchases Payable	554,635	
Capital Leases Payable	610,000	3,101,886
Estimated Insurance Claims Payable	1,621,986	
Compensated Absences Payable	4,929,731	
	198,323,080	85,006,072

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2010

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	\$	\$ 49,059,668
Certificates of Participation Payable		318,668,315
Capital Improvement Debt Payable	36,423,937	
Loans and Notes Payable		1,206,333
Installment Purchases Payable	174,209	
Capital Leases Payable	9,905,000	5,966,740
Estimated Insurance Claims Payable	16,548,183	
Compensated Absences Payable	55,150,093	
Federal Advance Payable	4,895,692	
Other Noncurrent Liabilities		34,777,942
Other Postemployment Benefits Payable	16,941,000	
Total Noncurrent Liabilities	140,038,114	409,678,998
TOTAL LIABILITIES	338,361,194	494,685,070
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	683,448,768	16,708,087
Restricted for Nonexpendable:		
Endowment		437,351,462
Restricted for Expendable:		
Debt Service	11,490,528	
Loans	5,672,918	
Capital Projects	158,876,035	
Other	90,060,669	
Unrestricted	317,538,875	68,329,681
TOTAL NET ASSETS	1,267,087,793	522,389,230
TOTAL LIABILITIES AND NET ASSETS	\$ 1,605,448,987	\$ 1,017,074,300

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, 2010

	<u>University</u>	<u>Component Units</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$ 70,894,181	\$ 171,139,205	\$ 407,247
Federal Grants and Contracts	189,034,824	291,571
State and Local Grants and Contracts	23,180,713	37,156,562
Nongovernmental Grants and Contracts	105,842,252	696,007
Sales and Services of Educational Departments	696,007	99,849,621
Sales and Services of Auxiliary Enterprises	99,849,621	235,750,894
Sales and Services of Component Units		17,765,559
Royalties and Licensing Fees		40,985,792
Gifts and Donations		268,880
Interest on Loans and Notes Receivable	268,880	
Other Operating Revenues	7,462,347	31,274,770
Total Operating Revenues	597,473,849	363,632,395
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	639,951,119	158,703,766
Services and Supplies	206,630,829	172,271,433
Utilities and Communications	27,117,070	
Scholarships, Fellowships, and Waivers	89,619,818	4,286,672
Depreciation Expense	48,973,695	16,242,046
Self-Insurance Claims	3,791,187	
Total Operating Expenses	1,016,083,718	351,503,917
Operating Income (Loss)	(418,609,869)	12,128,478
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	304,976,017	
Federal and State Student Financial Aid	109,440,650	
State Appropriated American Recovery and Reinvestment Act Funds	23,360,035	
Investment Income	26,587,879	46,381,415
Other Nonoperating Revenues	2,664,212	10,679,402
Loss on Disposal of Capital Assets	(5,590,768)	
Interest on Capital Asset-Related Debt	(2,324,193)	(21,844,813)
Other Nonoperating Expenses	(34,474,805)	(4,613,919)
Net Nonoperating Revenues	424,639,027	30,602,085
Income Before Other Revenues, Expenses, Gains, or Losses	6,029,158	42,730,563
Capital Appropriations	26,987,496	
Capital Grants, Contracts, Donations, and Fees	38,610,149	945,000
Increase in Net Assets	71,626,803	43,675,563
Net Assets, Beginning of Year	1,165,632,088	478,713,667
Adjustment to Beginning Net Assets	29,828,902	
Net Assets, Beginning of Year, as Restated	1,195,460,990	478,713,667
Net Assets, End of Year	\$ 1,267,087,793	\$ 522,389,230

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, 2010

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 169,770,045
Grants and Contracts	333,110,900
Sales and Services of Educational Departments	695,172
Sales and Services of Auxiliary Enterprises	100,140,180
Interest on Loans and Notes Receivable	267,833
Payments to Employees	(624,843,281)
Payments to Suppliers for Goods and Services	(232,228,333)
Payments to Students for Scholarships and Fellowships	(89,619,818)
Payments on Self-Insurance Claims	(3,623,138)
Net Collection on Student Loans	1,142,817
Other Operating Receipts	5,800,760
	(339,386,863)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	304,976,017
Federal and State Student Financial Aid	109,440,650
State Appropriated American Recovery and Reinvestment Act Funds	23,360,035
Net Change in Funds Held for Others	(6,773,580)
Operating Subsidies and Transfers	(15,649)
Other Nonoperating Receipts	2,727,325
Other Nonoperating Expenses	(40,255,024)
	393,459,774
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	80,941,250
Capital Grants, Contracts, Donations, and Fees	2,970,050
Capital Subsidies and Transfers	3,972,931
Proceeds from Sale of Capital Assets	546,522
Purchase or Construction of Capital Assets	(98,412,215)
Principal Paid on Capital Debt and Leases	(3,593,651)
Interest Paid on Capital Debt and Leases	(2,308,019)
	(15,883,132)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of Investments, Net	23,169,945
Investment Income	18,318,084
	41,488,029
Net Increase in Cash and Cash Equivalents	79,677,808
Cash and Cash Equivalents, Beginning of Year	100,217
	\$ 79,778,025
Cash and Cash Equivalents, End of Year	\$ 79,778,025

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2010**

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (418,609,869)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	48,973,695
Change in Assets and Liabilities:	
Receivables, Net	10,749,517
Loans and Notes Receivable, Net	1,142,817
Inventories	(433,335)
Other Assets	1,183,019
Accounts Payable	871,386
Salaries and Wages Payable	4,809,238
Deposits Payable	(214,154)
Deferred Revenue	1,499,400
Estimated Insurance Claims Payable	168,049
Compensated Absences Payable	1,682,374
Other Postemployment Benefits Payable	8,791,000
NET CASH USED BY OPERATING ACTIVITIES	\$ (339,386,863)

**SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED
FINANCING ACTIVITIES AND NONCASH INVESTING ACTIVITIES**

The fair value of the Johnnie B. Byrd, Sr., Alzheimer's Institute's building and equipment that was transferred to the University pursuant to Chapter 2009-60, Laws of Florida, was recognized as income on the statement of revenues, expenses, and changes in net assets, but is not a cash transaction for the statement of cash flows.	\$ 34,137,181
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ (5,590,768)
Unrealized gains on investments were recognized as an increase in investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 7,750,179

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, 2010**

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 a Faculty Practice Plan. An annual audit of each discretely presented 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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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 to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University of South Florida.
- The USF Property Corporation was formed for the primary purpose of acting as lessor in connection with “lease-purchase” financings in support of the activities and educational purposes of the University of South Florida and of the USF Financing Corporation by assisting in acquiring facilities and 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

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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 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 applies all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, has elected to apply only those FASB pronouncements issued on or after November 30, 1989, not in conflict with GASB standards.

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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 third-party aid.

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, library resources, property under capital lease, 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 tangible personal property, \$100,000 for buildings and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

- 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 capital improvement debt payable, installment purchases payable, capital leases payable, self-insurance claims payable, compensated absences payable, Federal advance payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year. Capital improvement debt payable is reported net of unamortized premium or discount and deferred losses on refundings. The University amortizes capital improvement debt premiums and discounts over the life of the capital improvement debt 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 capital improvement debt using the straight-line method.

2. REPORTING CHANGES

In prior fiscal years, the University reported the liability for Capital Improvement (Parking, Bookstore) Revenue Bonds, issued by the Florida Board of Governors on behalf of the University, as bonds payable on the statement of net assets. The Florida Board of Governors loaned the bond proceeds to the University for the stated capital improvement projects. Pursuant to an agreement with the Florida Board of Governors, revenues to be generated from the constructed facilities were pledged by the University to repay the bonds. Pursuant to GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, the liability for the Capital Improvement Revenue Bonds should be reported as collateralized borrowing. Accordingly, for the 2009-10 fiscal year, the University began reporting the outstanding liability for these bonds as capital improvement debt payable. When reclassifying these liabilities from bonds payable to capital improvement debt payable the University eliminated the related deferred charges for unamortized debt issuance costs paid from debt proceeds by netting the outstanding balance with bonds payable. This change affects the comparability of amounts reported as bonds payable, deferred charges, and capital improvement debt payable on the statement of net assets for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

3. PRIOR PERIOD ADJUSTMENTS

The University's beginning net assets was increased by \$29,828,902 to record a change in reporting bonds payable for State University System Capital Improvement Trust Fund Revenue Bonds. In prior fiscal years the liability for these bonds was reported on the University's statement of net assets. It has subsequently

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

been determined that these bonds are not debt of the University. Although proceeds from the bonds were provided to the University for capital projects, the University is not responsible for the repayment of the bonds. Repayment of the bonds is the responsibility of the Florida Board of Governors to be paid from capital improvement fees collected by all Florida universities and remitted in total to the Florida Department of Education.

4. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), 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. The University’s Board of Trustees has adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University was authorized to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the SBA; 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. During the 2009-10 fiscal year, the University Board of Trustees Investment Committee authorized investing in Hedge Funds, a new class of assets. 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, 2010, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
United States Government Obligations	\$ 9,538,208
Federal Agency Obligations	6,165,519
Bonds and Notes	5,869,717
Stocks and Other Equity Securities	4,882,355
Hedge Funds	27,912,412
Mutual Funds:	
Bond Index	408,161,684
Equities	6,586,236
Money Market	27,110,011
Total University Investments	<u><u>\$ 496,226,142</u></u>

The University’s discretely presented component units’ investments at June 30, 2010, 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, 2010

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	\$	\$	\$ 2,081,271	\$	\$	\$ 2,081,271
Bonds and Notes					6,134,418	6,134,418
Stocks and Other Equity Securities			1,916,827	11,198	872,068	2,800,093
Investment Agreements	61,080,138	429,610	1,351,133			62,860,881
Hedge Funds					2,343,784	2,343,784
Mutual Funds:						
Equities	187,471,637	1,563,047	4,904,480			193,939,164
Bonds	114,342,118	862,266	12,414,307			127,618,691
Money Market	28,687,151	191,953	4,674,710	35,549,270	15,492,451	84,595,535
Total Component Units Investments	\$ 391,581,044	\$ 3,046,876	\$ 27,342,728	\$ 35,560,468	\$ 24,842,721	\$ 482,373,837

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, equity and equity-type securities, hedge funds, 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, mutual funds, and fixed-income investments. The University's investment policy and the Research Foundation's investment policy also allow investments in hedge funds. 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 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 & Poor's. The University and Research Foundation investment policies provide for credit 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, hedge funds, and mutual funds at June 30, 2010:

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University Debt Investment Maturity and Quality Ratings

Investment Type	Weighted or Effective Average Maturities	Credit Quality Range		Fair Value
		Moody's	Standard & Poor's	
United States Government Obligations (4)	3.94 Years (2)	(1)	(1)	\$ 9,538,208
Federal Agency Obligations (4)	3.85 Years (2)	Aaa - Aa3	AAA	5,051,241
Federal Agency Obligations (4)	1.23 Years (2)	Not Rated	Not Rated	1,114,278
Bonds and Notes (4)	3.72 Years (2)	Aaa - Baa1	AAA - A-	5,869,717
Bond Index Mutual Funds (5)	2.74 Years (2)	Not Rated	Not Rated	408,161,684
Hedge Funds (5)	Not Available	Not Rated	Not Rated	27,912,412
Money Market Mutual Funds (4)	39 Days (2)	Aaa	AAAm	1,098,678
Money Market Mutual Funds (5)	54 Days (3)	Not Rated	Not Rated	26,011,333
Total				\$ 484,757,551

Notes: (1) Disclosure of credit risk is not required for this investment type.
 (2) Weighted average maturity.
 (3) Effective average maturity.
 (4) Medical Professional Liability Self-Insurance Program.
 (5) 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	\$ 2,081,271	\$ 2,081,271	\$	\$
Mutual Funds:				
Bonds	12,414,307	646,755	10,100,164	1,667,388
Money Market	4,674,710	4,674,710		
Total	\$ 19,170,288	\$ 7,402,736	\$ 10,100,164	\$ 1,667,388

**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	\$ 12,414,307	\$ 8,392,296	\$ 750,268	\$ 1,268,399	\$ 2,003,344
Money Market	4,674,710	2,371,614	1,926,066	343,443	33,587
Total	\$ 17,089,017	\$ 10,763,910	\$ 2,676,334	\$ 1,611,842	\$ 2,036,931

Note: (1) Rated by Standard & 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. The University investment policy provides for custodial credit risk. 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

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invested in the securities of an individual issuer not backed by the full faith and credit of the United States 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 United States Government, Government agencies and State of Florida Investment Pools, or Pooled Funds comprised solely of United States 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, 2010.

5. 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, 2010, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$49,817,754
Student Tuition and Fees	10,073,907
Other	<u>5,481,211</u>
Total Accounts Receivable	<u>\$65,372,872</u>

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 \$10,113,586 and \$2,552,840, respectively, at June 30, 2010.

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

6. DUE FROM STATE

This amount includes Public Education Capital Outlay allocations and Lottery Appropriations due to the University for construction of University facilities and operations, respectively.

7. DUE FROM AND TO COMPONENT UNITS/UNIVERSITY

The \$25,161,968 reported as due from component units represents amounts owed by the University of South Florida Foundation, Inc. (\$16,486,960), for the Alec P. Courtelis Facility Matching Gift funds; by the University of South Florida Alumni Association, Inc. (\$17,421), for overpayment of salaries; by the University of South Florida Research Foundation, Inc. (\$8,580,206), for grant and special project-related

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deferred revenue and administrative overhead rebate; by USF Health Professions Conferencing Corporation (\$72,912) for overpayment of salaries and caterers billing; and amounts due from the University of South Florida Medical Services Support Corporation (\$4,469) for overpayments of partial funding of faculty salaries.

The \$51,967,917 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 (\$50,204,649); to Sun Dome Inc. (\$16,877), for certain utility, telephone and salaries and benefits expenditures directly incurred by the University on behalf of the golf course; and to the University Medical Service Association, Inc. (\$1,746,391), for overpayments of partial funding of faculty salaries and other operating expenses at USF Health.

8. 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.

9. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2010, is shown below:

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Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 29,060,534	\$	\$	\$ 29,060,534
Construction in Progress	42,755,279	88,224,072	9,822,651	121,156,700
Works of Art and Historical Treasures	1,173,160	642,673		1,815,833
Total Nondepreciable Capital Assets	\$ 72,988,973	\$ 88,866,745	\$ 9,822,651	\$ 152,033,067
Depreciable Capital Assets:				
Buildings	\$ 742,089,472	\$ 40,381,993	\$ 4,357,410	\$ 778,114,055
Infrastructure and Other Improvements	71,234,663	4,202,891	188,107	75,249,447
Furniture and Equipment	223,125,299	21,673,558	33,694,769	211,104,088
Library Resources	37,190,786	593,303	10,210,336	27,573,753
Property Under Capital Lease	13,200,000			13,200,000
Works of Art and Historical Treasures	344,966	33,769	98,067	280,668
Other Capital Assets	29,142,286	1,219,761	634,727	29,727,320
Total Depreciable Capital Assets	1,116,327,472	68,105,275	49,183,416	1,135,249,331
Less, Accumulated Depreciation:				
Buildings	268,904,593	23,529,824	669,243	291,765,174
Infrastructure and Other Improvements	29,788,923	2,991,880	416,821	32,363,982
Furniture and Equipment	147,695,001	16,850,617	30,827,649	133,717,969
Library Resources	22,748,579	3,391,475	7,787,673	18,352,381
Property Under Capital Lease	1,342,000	264,000		1,606,000
Works of Art and Historical Treasures	60,879	70,530		131,409
Other Capital Assets	19,835,809	1,875,369		21,711,178
Total Accumulated Depreciation	490,375,784	48,973,695	39,701,386	499,648,093
Total Depreciable Capital Assets, Net	\$ 625,951,688	\$ 19,131,580	\$ 9,482,030	\$ 635,601,238

10. 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, 2010, 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, 2010, the University reported the following amounts as deferred revenue:

Description	Amount
Contracts and Grants	\$ 42,754,990
Capital Appropriations	17,283,449
Student Tuition and Fees	3,868,626
Total Deferred Revenue	\$ 63,907,065

11. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2010, include capital improvement debt payable, installment purchases payable, capital leases payable, self-insurance claims, compensated absences payable,

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Federal advance payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2010, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable (1)	\$ 71,379,221	\$	\$ 71,379,221	\$	\$
Capital Improvement Debt Payable (1)		41,406,590	2,438,826	38,967,764	2,543,827
Installment Purchases Payable	1,259,867	522,628	1,053,651	728,844	554,635
Capital Leases Payable	11,100,000		585,000	10,515,000	610,000
Estimated Insurance Claims Payable	18,002,120	3,791,187	3,623,138	18,170,169	1,621,986
Compensated Absences Payable	58,397,450	5,950,486	4,268,112	60,079,824	4,929,731
Federal Advance Payable	5,234,003		338,311	4,895,692	
Other Postemployment Benefits Payable	8,150,000	12,249,000	3,458,000	16,941,000	
Total Long-Term Liabilities	\$ 173,522,661	\$ 63,919,891	\$ 87,144,259	\$ 150,298,293	\$ 10,260,179

Note: (1) The University recorded an adjustment to beginning net assets to recognize a change in the reporting of Bonds Payable for State University System Capital Improvement Trust Fund Revenue Bonds totaling \$29,828,902, which was net of deferred changes of \$143,729. The University also reclassified Capital Improvement (Parking and Bookstore) Revenue Bonds from Bonds Payable to Capital Improvement Debt Payable. See Notes 2 and 3.

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2010:

Debt Type	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Capital Improvement Debt:				
1994 Bookstore	\$ 8,090,000	\$ 3,473,331	6.00	2016
2002 Parking	12,700,000	9,202,830	3.60 - 4.75	2023
2004A Parking	16,000,000	11,581,514	3.00 - 5.00	2024
2006A Parking	17,020,000	14,710,089	4.00 - 5.00	2026
Total	\$ 53,810,000	\$ 38,967,764		

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

The University has pledged a portion of future traffic and parking fees, and various student fee assessments, to repay \$38,967,764 in capital improvement (parking and bookstore) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student parking garages and a bookstore facility. The bonds are payable solely from traffic and parking fees, transportation access fees, and bookstore revenue. The University has committed to appropriate each year from the traffic and parking fees, transportation access fees, and bookstore revenue amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$52,696,772, and principal and interest paid for the current year totaled \$4,261,975. During the 2009-10 fiscal year, traffic and parking fees, transportation access fees, and bookstore revenue totaled \$9,502,235, \$2,979,197, and \$1,810,402, respectively.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2010, are as follows:

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<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,560,000	\$ 1,710,865	\$ 4,270,865
2012	2,660,000	1,609,335	4,269,335
2013	2,765,000	1,501,935	4,266,935
2014	2,880,000	1,386,885	4,266,885
2015	3,015,000	1,258,279	4,273,279
2016-2020	12,635,000	4,369,829	17,004,829
2021-2025	11,410,000	1,633,619	13,043,619
2026	1,245,000	56,025	1,301,025
Subtotal	39,170,000	13,526,772	52,696,772
Less: Net Discounts, Premiums, and Losses on Refundings	<u>202,236</u>		<u>202,236</u>
Total	<u>\$ 38,967,764</u>	<u>\$ 13,526,772</u>	<u>\$ 52,494,536</u>

Installment Purchases Payable. The University has entered into several installment purchase agreements for the purchase of equipment reported at \$1,660,956. The stated interest rates ranged from zero percent to 0.26 percent. Future minimum payments remaining under installment purchase agreements and the present value of the minimum payments as of June 30, 2010, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2011	\$ 555,621
2012	<u>174,209</u>
Total Minimum Payments	729,830
Less, Amount Representing Interest	<u>986</u>
Present Value of Minimum Payments	<u>\$ 728,844</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, 2010, are as follows:

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Fiscal Year Ending June 30	Amount
2011	\$ 1,069,450
2012	1,071,325
2013	1,071,850
2014	1,071,025
2015	1,068,850
2016-2020	5,338,075
2021-2023	3,190,538
Total Minimum Payments	13,881,113
Less, Amount Representing Interest	3,366,113
Present Value of Minimum Payments	\$ 10,515,000

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, 2010, the estimated liability for compensated absences, which includes the University’s share of the Florida Retirement System and FICA contributions, totaled \$60,079,824. 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.

Other Postemployment 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 administered 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 multiple-employer defined-benefit plan (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

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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. Plan benefits 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 2009-10 fiscal year, 1,041 retirees received postemployment healthcare benefits. The University provided required contributions of \$3,458,000 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 \$5,563,000.

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:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 6,180,000
Amortization of Unfunded Actuarial Accrued Liability	5,546,000
Interest on Normal Cost and Amortization	<u>469,000</u>
Annual Required Contribution	12,195,000
Interest on Net OPEB Obligation	326,000
Adjustment to Annual Required Contribution	<u>(272,000)</u>
Annual OPEB Cost (Expense)	12,249,000
Contribution Toward the OPEB Cost	<u>(3,458,000)</u>
Increase in Net OPEB Obligation	8,791,000
Net OPEB Obligation, Beginning of Year	<u>8,150,000</u>
Net OPEB Obligation, End of Year	<u><u>\$ 16,941,000</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, 2010, and for the transition and preceding years, were as follows:

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Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	\$		\$
2007-08	7,483,000	43.7%	4,215,000
2008-09	6,967,000	49.2%	8,150,000
2009-10	12,249,000	28.2%	16,941,000

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$166,372,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$166,372,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$408,028,256, for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 40.8 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. 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, 2009, used the entry-age cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and the University’s 2009-10 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 the PPO plan was 10.32 percent, and was 8.84 percent for the first two years, 7 percent in the third year, grading to 5.10 percent over 70 years. Initial healthcare cost trend rates for the HMO plan was 10 percent for the first two years, 7 percent in the third year, grading to 5.10 percent over 70 years. 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, 2010, was 27 years.

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12. 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 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.

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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.

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 rights, 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 rights, 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

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collaterally assigned to the Trustee pursuant to one or more separate assignments. All of the rights, 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.

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 rights, 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 19, 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 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 were converted from auction rate securities to variable rate demand bonds with weekly rate periods in March 2008. 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

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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, 2010, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	7,815,000	10,964,435	18,779,435
2016-2020	44,125,000	49,692,496	93,817,496
2021-2025	54,160,000	39,698,988	93,858,988
2026-2030	65,915,000	28,176,897	94,091,897
2031-2035	80,165,000	14,391,838	94,556,838
2036-2038	33,855,000	1,497,903	35,352,903
Subtotal	314,420,000	191,116,748	505,536,748
Add, Net Premiums and Discounts	1,073,315		1,073,315
Total (1)	<u>\$ 315,493,315</u>	<u>\$ 191,116,748</u>	<u>\$ 506,610,063</u>

Note: (1) This total, plus \$10,515,000 of Certificates of Participation Payable for the University of South Florida Foundation, Inc., comprise the total \$326,008,315 of Certificates of Participation Payable reported under the component units column on the Statement of Net Assets.

Interest Rate Swap Agreements

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 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

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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 & 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, 2010, the posted collateral was \$9,950,000.

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 \$28,680,996 which represents the amount to be paid to terminate the agreements at the reporting date.

As of June 30, 2010, 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.

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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.

13. 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, 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 4 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 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 2009-10 fiscal year were as follows:

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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.

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, 2008, June 30, 2009, and June 30, 2010, totaled \$14,003,575, \$14,335,521, and \$14,789,117, 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 823 University participants during the 2009-10 fiscal year. Required contributions made to the PEORP totaled \$3,029,267.

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.

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

There were 2,912 University participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled \$21,496,423, and employee contributions totaled \$9,537,442.

14. CONSTRUCTION COMMITMENTS

The University’s major construction commitments at June 30, 2010, are as follows:

<u>Project Name</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Commitment Balance</u>
Visual and Performing Arts Teaching Facility	\$ 46,605,935	\$ 28,588,132	\$ 18,017,803
USF Student Wellness/Nutrition Center for Advanced Health Care	14,876,702	1,714,293	13,162,409
Patel Center for Global Solutions	8,667,948	2,751,252	5,916,696
Interdisciplinary Science Teaching and Research Facility	24,909,276	11,814,943	13,094,333
Polytechnic Campus Phase 1 Infrastructure (PECO)	72,322,565	20,314,532	52,008,033
	20,400,000	5,733,707	14,666,293
	<u>55,157,910</u>	<u>20,914,457</u>	<u>34,243,453</u>
Subtotal	242,940,336	91,831,316	151,109,020
Other Projects (1)	<u>56,730,972</u>	<u>29,325,384</u>	<u>27,405,588</u>
Total	<u>\$ 299,671,308</u>	<u>\$ 121,156,700</u>	<u>\$ 178,514,608</u>

Note: (1) Individual projects with current commitment balances less than \$5 million at June 30, 2010.

15. 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(2), 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 2009-10 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 \$40 million for named wind and flood through February 14, 2010, and

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increased to \$58.75 million starting February 15, 2010. 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 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, 2009, and June 30, 2010, 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
2008-09	\$ 13,940,352	\$ 10,461,895	\$ (6,400,127)	\$ 18,002,120
2009-10	18,002,120	3,791,187	(3,623,138)	18,170,169

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16. 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.

17. 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:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 279,093,962
Research	240,677,392
Public Service	5,201,277
Academic Support	86,850,186
Student Services	36,671,695
Institutional Support	65,060,268
Operation and Maintenance of Plant	50,889,820
Scholarships and Fellowships	92,638,541
Auxiliary Enterprises	109,731,721
Depreciation	48,973,695
Loan Operations	295,161
Total Operating Expenses	<u><u>\$ 1,016,083,718</u></u>

18. 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	\$ 7,518,841
Capital Assets, Net	47,621,272
Other Noncurrent Assets	<u>7,300,035</u>
Total Assets	<u>62,440,148</u>
Liabilities	
Current Liabilities	2,121,402
Noncurrent Liabilities	<u>33,749,181</u>
Total Liabilities	<u>35,870,583</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	12,450,268
Restricted - Expendable	8,210,437
Unrestricted	<u>5,908,860</u>
Total Net Assets	<u>\$ 26,569,565</u>

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

	<u>Parking Facility Revenue Bonds</u>
Operating Revenues	\$ 12,481,431
Depreciation Expense	(1,721,772)
Other Operating Expenses	<u>(8,254,285)</u>
Operating Income	<u>2,505,374</u>
Nonoperating Revenues (Expenses):	
Nonoperating Revenue	62,935
Interest Expense	(1,582,402)
Other Nonoperating Expenses	<u>(24,774)</u>
Net Nonoperating Expenses	<u>(1,544,241)</u>
Increase in Net Assets	961,133
Net Assets, Beginning of Year	<u>25,608,432</u>
Net Assets, End of Year	<u>\$ 26,569,565</u>

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Condensed Statement of Cash Flows

	Parking Facility Revenue Bonds
Net Cash Provided (Used) by:	
Operating Activities	\$ 4,206,239
Capital and Related Financing Activities	(3,899,005)
Investing Activities	2,061,133
Net Increase in Cash and Cash Equivalents	2,368,367
Cash and Cash Equivalents, Beginning of Year	4,368
Cash and Cash Equivalents, End of Year	\$ 2,372,735

19. DEFICIT UNRESTRICTED NET ASSETS – COMPONENT UNIT

The University’s direct-support organization, University of South Florida Medical Services Support Corporation (MSSC), had a deficit unrestricted net asset balance of \$5,449,309 at June 30, 2010. This deficit balance can be attributed primarily to an accrued liability of \$6,804,479 related to an interest rate swap agreement due to USF Financing Corporation, a University direct-support organization (see note 12).

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

20. 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							Total Direct- Support Organizations	Other Component Unit University Medical Service Association, Inc.	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)			
Condensed Statement of Net Assets										
Assets:										
Current Assets	\$ 123,920,701	\$ 623,836	\$ 8,634,433	\$ 7,833,204	\$ 689,636	\$ 21,287,612	\$ 69,297,513	\$ 232,286,935	\$ 76,218,311	\$ 308,505,246
Capital Assets, Net	3,118,178		2,782,973	7,480,906	2,709,759	47,288,960	258,136,523	321,517,299	4,180,731	325,698,030
Other Noncurrent Assets	322,898,449	2,478,647		1,000		21,611,591	35,810,536	382,800,223	70,801	382,871,024
Total Assets	449,937,328	3,102,483	11,417,406	15,315,110	3,399,395	90,188,163	363,244,572	936,604,457	80,469,843	1,017,074,300
Liabilities:										
Current Liabilities	21,603,123	1,146,866	2,353,154	16,264,666	675,084	15,911,417	15,749,327	73,703,637	11,302,435	85,006,072
Noncurrent Liabilities	10,550,826		1,437,673	4,499,753	1,206,333	44,721,120	347,233,979	409,649,684	29,314	409,678,998
Total Liabilities	32,153,949	1,146,866	3,790,827	20,764,419	1,881,417	60,632,537	362,983,306	483,353,321	11,331,749	494,685,070
Net Assets:										
Invested in Capital Assets, Net of Related Debt	3,118,180		916,432	384,388	1,339,396	6,768,960		12,527,356	4,180,731	16,708,087
Restricted	434,325,460	263,601	2,762,401					437,351,462		437,351,462
Unrestricted	(19,660,261)	1,692,016	3,947,746	(5,833,697)	178,582	22,786,666	261,266	3,372,318	64,957,363	68,329,681
Total Net Assets	\$ 417,783,379	\$ 1,955,617	\$ 7,626,579	\$ (5,449,309)	\$ 1,517,978	\$ 29,555,626	\$ 261,266	\$ 453,251,136	\$ 69,138,094	\$ 522,389,230
Condensed Statement of Revenues, Expenses, and Changes in Net Assets										
Operating Revenues	\$ 44,377,237	\$ 2,091,453	\$ 17,801,149	\$ 59,157,929	\$ 3,099,983	\$ 26,744,645	\$ 33,420,905	\$ 186,693,301	\$ 176,939,094	\$ 363,632,395
Operating Expenses	51,570,837	1,950,295	20,571,894	59,201,436	3,245,222	17,041,475	23,476,096	177,057,255	174,446,662	351,503,917
Operating Income (Loss)	(7,193,600)	141,158	(2,770,745)	(43,507)	(145,239)	9,703,170	9,944,809	9,636,046	2,492,432	12,128,478
Net Nonoperating Revenues (Expenses)	44,744,486	245,954	74,308	(3,039,025)	326,416	(2,263,816)	(9,683,543)	30,404,780	197,305	30,602,085
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	37,550,886	387,112	(2,696,437)	(3,082,532)	181,177	7,439,354	261,266	40,040,826	2,689,737	42,730,563
Capital Grants, Contracts, Donations, and Fees					945,000			945,000		945,000
Increase (Decrease) in Net Assets	37,550,886	387,112	(2,696,437)	(3,082,532)	1,126,177	7,439,354	261,266	40,985,826	2,689,737	43,675,563
Net Assets, Beginning 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
Net Assets, End of Year	\$ 417,783,379	\$ 1,955,617	\$ 7,626,579	\$ (5,449,309)	\$ 1,517,978	\$ 29,555,626	\$ 261,266	\$ 453,251,136	\$ 69,138,094	\$ 522,389,230

Note: (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.

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

21. SUBSEQUENT EVENTS

Subsequent to June 30, 2010, the USF Financing Corporation issued the following debt instruments to fund three new University construction projects:

- On December 15, 2010, as authorized by the University Board of Trustees in December 2009, the USF Financing Corporation issued a \$13,500,000 Taxable Promissory Note, Series 2010B, of Direct Subsidy Build America Bonds to fund the construction of the Athletics District/Sports Complex Project, which will include a new basketball practice facility, improvements to the existing baseball stadium, a new softball stadium, new football practice fields, and the relocation of the existing recreational fields. The interest rate is fixed at 6.17 percent gross, or 4.01 percent net of the 35 percent Federal subsidy.
- On December 15, 2010, as authorized by the University Board of Trustees in June 2010, the University acquired real property located within the Downtown Tampa Redevelopment Area for a purchase price of \$3,525,000. The USF Financing Corporation issued a \$20,000,000 Taxable Promissory Note, Series 2010, of Direct Subsidy Build America Bonds to fund construction of the USF Center for Advanced Medical Learning & Simulation Project on this property. The interest rate is fixed at 6.17 percent gross, or 4.01 percent net of the 35 percent Federal subsidy.
- On December 23, 2010, as authorized by the University Board of Trustees in October 2010, the USF Financing Corporation issued \$18,000,000 in a combination of \$2,860,000 Certificates of Participation, Series 2010A and \$15,140,000 Certificates of Participation, Series 2010B of Direct Subsidy Build America Bonds to fund the construction of the University of South Florida St. Petersburg Student Housing and Student Center Project. The Certificates were issued at a tax-exempt fixed interest rate of 4.28 percent. The Bonds bear interest at a fixed rate of 8.52 percent gross, or 5.57 percent net of the 35 percent Federal subsidy.

**UNIVERSITY OF SOUTH FLORIDA
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLAN**

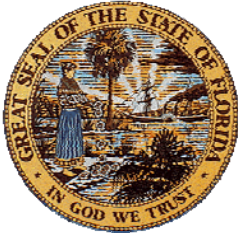
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b) (1)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$ -	\$ 109,667,000	\$ 109,667,000	0%	\$ 393,844,424	27.8%
7/1/2009	-	166,372,000	166,372,000	0%	408,028,256	40.8%

Note: (1) Entry-Age Cost actuarial method used to estimate.

**UNIVERSITY OF SOUTH FLORIDA
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2009, unfunded actuarial liability of \$166,372,000 was significantly higher than the July 1, 2007, liability of \$109,667,000 primarily as a result of changes in the methodology used by the actuary to calculate this liability. The most significant of these modifications were due to changes in the long-term trend model, changes in the rates of decrement and mortality, and the amortization factor.



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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 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, 2010, 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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*.

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
January 21, 2011