

UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC

A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2011



BOARD OF TRUSTEES AND PRESIDENT

During the audit period, the President of the University of South Florida was Dr. Judy L. Genshaft. The University of South Florida Polytechnic Regional Chancellor was Dr. Marshall Goodman. The Board members of the University of South Florida Polytechnic and the Board of Trustees members of the University of South Florida who served during the audit period are listed below:

Polytechnic Campus Board Members

Gene Engle, Chair
Michael E. Carter
Mark Kaylor
Ron Morrow
Bonnie Parker from 10-07-10 (1)

University Board of Trustee Members

John B. Ramil, Chair
Harold W. Mullis, Jr., Vice Chair
Lee E. Arnold, Jr., to 1-06-11 (2)
Dr. Laurence G. Branch to 8-15-10 (3)
Margarita R. Cancio, M.D., to 1-06-11 (4)
Matthew A. Diaz from 5-09-11 (5)
Gene Engle
Stephanie E. Goforth from 1-20-11
Cesar Hernandez to 5-08-11 (5)
Brian D. Lamb
Dr. Elizabeth Larkin from 8-16-10 (3)
Rhea F. Law
Stephen J. Mitchell from 5-20-11
Dr. Louis S. Saco from 1-20-11
Debbie Nye Sembler
Byron E. Shinn
Sherrill Tomasino to 1-06-11 (2)
Jordan B. Zimmerman

Notes: (1) Position remained vacant from July 1, 2010, through October 6, 2010.
(2) Positions remained vacant from January 7, 2011, through January 19, 2011.
(3) Faculty advisory council president (equivalent to faculty senate chair referred to in Section 1001.71(1), Florida Statutes).
(4) Position remained vacant from January 7, 2011, through May 19, 2011.
(5) Student body president.

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 Rachel Sellers, 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 POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA**

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the basic financial statements of the University of South Florida Polytechnic (Regional Campus), a regional campus of the University of South Florida (a component unit of the State of Florida), 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 Regional Campus and its officers with administrative and stewardship responsibilities for Regional Campus operations had:

- Presented the Regional Campus'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 Regional Campus's basic financial statements as of and for the fiscal year ended June 30, 2011. We obtained an understanding of the Regional Campus'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 Regional Campus 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 Regional Campus records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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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 Polytechnic (Regional Campus), a regional campus of the University of South Florida (a component unit of the State of Florida), as of and for the fiscal year ended June 30, 2011, which collectively comprise the Regional Campus's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Regional Campus management. Our responsibility is to express opinions on these financial statements based on our audit.

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 provides a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements of the Regional Campus have been prepared for use by the Southern Association of Colleges and Schools, and are intended to present only that portion of the financial position and the changes in financial position and cash flows of only that portion of the University of South Florida that is attributable to the transactions of the Regional Campus. They do not purport to, and do not, present fairly the financial position of the University of South Florida as of June 30, 2011, and the changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Regional Campus as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Regional Campus'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 the **MANAGEMENT'S DISCUSSION AND ANALYSIS** and the **SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN**, as listed in the table of contents, 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
February 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) of the University of South Florida Polytechnic (Regional Campus), a regional campus of the University of South Florida, provides an overview of the financial position and activities of the Regional Campus for the fiscal year ended June 30, 2011, 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 Regional Campus management.

FINANCIAL HIGHLIGHTS

The Regional Campus's assets totaled \$102.8 million at June 30, 2011. This balance reflects a \$25.4 million, or 32.9 percent increase from the 2009-10 fiscal year. Liabilities increased by \$0.6 million, or 27.8 percent, totaling \$2.8 million at June 30, 2011, compared to \$2.2 million at June 30, 2010. As a result, the Regional Campus's net assets increased by \$24.8 million, reaching a year-end balance of \$100 million.

The Regional Campus's operating revenues totaled \$6 million for the 2010-11 fiscal year, representing a 24.6 percent increase over the 2009-10 fiscal year due mainly to increases in student tuition and fees of \$1 million and grants and contracts of \$0.2 million. Operating expenses totaled \$28 million for the 2010-11 fiscal year, representing an increase of 75.5 percent over the 2009-10 fiscal year due mainly to increases in expenditures for compensation and employee benefits of \$7.2 million, services and supplies of \$4.4 million, and scholarships, fellowship, and waivers of \$0.3 million. The major factors for these increases were increased faculty and support personnel, the implementation of the doctor of pharmacy degree program, and the establishment and transfer of the Florida Industrial and Phosphate Research Institute (FIPRI) from the University of South Florida to the Regional Campus.

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the Regional Campus'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 have been prepared for use by the Southern Association of Colleges and Schools, and are intended to present the financial position and the changes in financial position and cash flows that is attributable to the transactions of the Regional Campus.

THE STATEMENT OF NET ASSETS

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

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

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

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets	\$ 52,913	\$ 41,181
Capital Assets, Net	45,363	35,899
Other Noncurrent Assets	<u>4,541</u>	<u>297</u>
Total Assets	<u>102,817</u>	<u>77,377</u>
Liabilities		
Current Liabilities	833	1,119
Noncurrent Liabilities	<u>2,029</u>	<u>1,120</u>
Total Liabilities	<u>2,862</u>	<u>2,239</u>
Net Assets		
Invested in Capital Assets	45,363	35,899
Restricted	26,880	27,311
Unrestricted	<u>27,712</u>	<u>11,928</u>
Total Net Assets	<u>\$ 99,955</u>	<u>\$ 75,138</u>

Assets are what the Regional Campus owns and are measured in current value, except for property and equipment, which are recorded at historical cost less accumulated depreciation. Liabilities are generally considered to be financial obligations of the Regional Campus and may also consist of payments received for services not yet provided (deferred revenue). Both assets and liabilities are classified as either current or noncurrent. This classification is made based on when an asset is expected to be converted to cash or a liability is expected to be paid off. If either of these situations is expected to take place within the upcoming year, then the asset or liability is considered to be current.

The Regional Campus's assets totaled \$102.8 million at June 30, 2011. This balance reflects a \$25.4 million, or 32.9 percent increase over the 2009-10 fiscal year. This increase is attributable to an increase in current assets of \$11.7 million, an increase in capital assets of \$9.5 million, and an increase in other noncurrent assets of \$4.2 million. These increases were primarily the result of increases to cash and investments, construction in progress from new construction, and the transfer in of FIPRI assets.

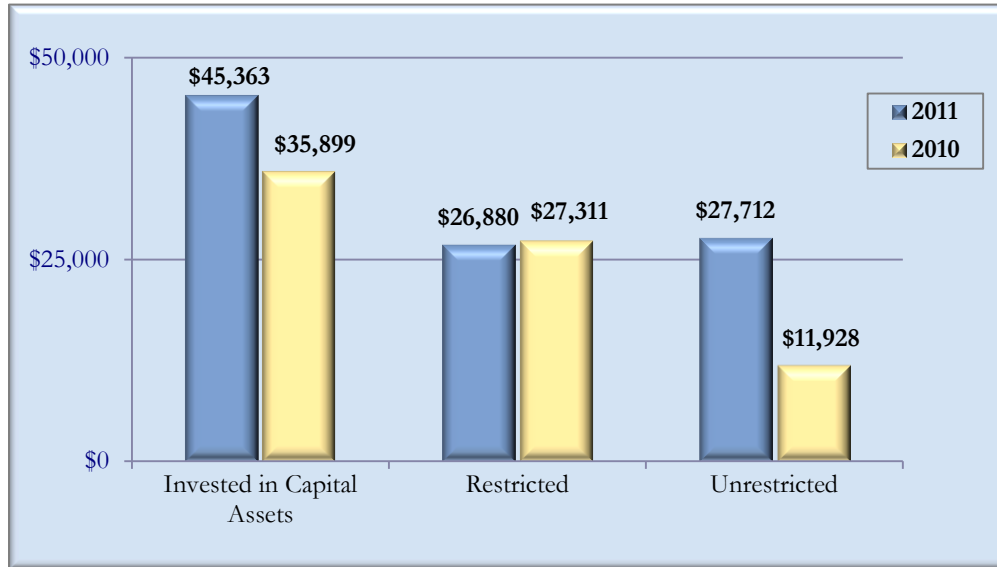
Total liabilities increased by \$0.6 million, which was primarily due to an increase in noncurrent liabilities of \$0.9 million from compensated absences payable and other postemployment benefits payable, offset by a reduction in current liabilities of \$0.3 million.

This combination of changes in both total assets of \$25.4 million and total liabilities of \$0.6 million resulted in a net increase in total net assets of \$24.8 million. This increase in total net assets is attributable to increases in capital assets of \$9.4 million, and increases in unrestricted net assets of \$15.8 million offset by decreases in capital projects and other restricted net assets of \$0.4 million.

Net assets are reported in three major categories. The first category, invested in capital assets, provides the Regional Campus's equity in property, plant, and equipment owned by the Regional Campus. 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 Regional Campus which 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 of South Florida, and are reported in the component unit column of the University

of South Florida’s financial statements. Restricted expendable net assets are available for use by the Regional Campus, 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 Regional Campus for any lawful purpose of the Regional Campus. The following graph illustrates the comparative change in net assets by category for the 2010-11 and 2009-10 fiscal years:

**Net Assets at June 30
(In Thousands)**



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

The statement of revenues, expenses, and changes in net assets presents the Regional Campus’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 Regional Campus’s activity for the 2010-11 and 2009-10 fiscal years:

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

	2010-11	2009-10
Operating Revenues	\$ 5,981	\$ 4,802
Operating Expenses	28,026	15,967
Operating Loss	(22,045)	(11,165)
Net Nonoperating Revenues	34,911	15,888
Income Before Other Revenues, Expenses, Gains, or Losses	12,866	4,723
Other Revenues, Expenses, Gains, or Losses	11,951	10,193
Net Increase In Net Assets	24,817	14,916
Net Assets, Beginning of Year	75,138	60,222
Net Assets, End of Year	<u>\$ 99,955</u>	<u>\$ 75,138</u>

Operating Revenues

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

The following summarizes the operating revenues by source that were used to fund operating activities during the 2010-11 and 2009-10 fiscal years:

Operating Revenues		
(In Thousands)		
	<u>2010-11</u>	<u>2009-10</u>
Net Tuition and Fees	\$ 5,375	\$ 4,421
Grants and Contracts	537	356
Sales and Services of Auxiliary Enterprises	66	24
Interest on Loans and Notes Receivable	<u>3</u>	<u>1</u>
Total Operating Revenues	<u>\$ 5,981</u>	<u>\$ 4,802</u>

Total operating revenues increased by \$1.2 million with the change being mainly attributable to student tuition and fees (after tuition scholarship allowance), which increased by \$1 million mainly due to an increase in the tuition rates beginning in Fall 2010.

Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the Regional Campus’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 Regional Campus 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 2010-11 and 2009-10 fiscal years:

Operating Expenses		
(In Thousands)		
	<u>2010-11</u>	<u>2009-10</u>
Compensation and Employee Benefits	\$ 18,778	\$ 11,600
Services and Supplies	6,470	2,078
Utilities and Communications	175	87
Scholarships, Fellowships, and Waivers	1,761	1,483
Depreciation	<u>842</u>	<u>719</u>
Total Operating Expenses	<u>\$ 28,026</u>	<u>\$ 15,967</u>

Total operating expenses increased by \$12 million mainly attributable to increases in compensation and employee benefits of \$7.2 million; services and supplies of \$4.4 million; and scholarships, fellowships, and waivers of \$0.3 million. Increases in compensation and employee benefits and services and supplies are the result of increased Regional Campus faculty/support personnel, the operating expenses related to FIPRI, and the personnel and operating expenses related to the new doctor of pharmacy degree program.

Nonoperating Revenues and Expenses

Certain revenue sources that the Regional Campus 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 Regional Campus’s nonoperating revenues and expenses for the 2010-11 and 2009-10 fiscal years:

Nonoperating Revenues (Expenses)		
(In Thousands)		
	<u>2010-11</u>	<u>2009-10</u>
State Noncapital Appropriations	\$ 28,980	\$ 12,995
Federal and State Student Financial Aid	2,552	1,980
State Appropriated American Recovery and Reinvestment Act Funds	678	709
Investment Income	1,043	249
Other Nonoperating Revenues	1,663	2
Nonoperating Expenses	<u>(5)</u>	<u>(47)</u>
Net Nonoperating Revenues	<u>\$ 34,911</u>	<u>\$ 15,888</u>

Total nonoperating revenues (expenses) increased by \$19 million, due primarily to a 123 percent increase in State appropriations of \$16 million. The appropriation increase assisted in establishing the faculty/support personnel and infrastructure necessary to meet operating requirements of the Regional Campus as it aligns course offerings and faculty hires necessary to meet the Polytechnic mission and vision of an applied learning environment, and the operating expenses of the pharmacy program. Other changes included an increase in Federal and State student financial aid of \$0.6 million, an increase in investment income of \$0.8 million and an increase in other nonoperating revenues of \$1.7 million due to the addition of FIPRI.

Other Revenues, Expenses, Gains, or Losses

This category is composed of capital appropriations and transfers to and from other University campuses. The following summarizes the Regional Campus’s other revenues, expenses, gains, or losses for the 2010-11 and 2009-10 fiscal years:

Other Revenues, Expenses, Gains, or Losses		
(In Thousands)		
	<u>2010-11</u>	<u>2009-10</u>
State Capital Appropriations	\$ 927	\$ 10,490
Transfers To/From Other University Campuses, Net	<u>11,024</u>	<u>(297)</u>
Total	<u>\$ 11,951</u>	<u>\$ 10,193</u>

Total other revenues increased by \$1.8 million. Capital appropriations decreased \$9.5 million from the previous year’s continued funding for the new campus building. An increase of \$11.3 million in net transfers to and from other university campuses was primarily from the transfer in of FIPRI assets and liabilities.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the Regional Campus’s financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the Regional Campus’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 Regional Campus. Cash flows from capital financing activities include all plant funds. 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 2010-11 and 2009-10 fiscal years:

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

	2010-11	2009-10
Cash Provided (Used) by:		
Operating Activities	\$ (20,109)	\$ (9,910)
Noncapital Financing Activities	43,007	15,047
Capital and Related Financing Activities	(2,002)	(819)
Investing Activities	(18,063)	(2,351)
Net Increase in Cash and Cash Equivalents	2,833	1,967
Cash and Cash Equivalents, Beginning of Year	1,970	3
Cash and Cash Equivalents, End of Year	\$ 4,803	\$ 1,970

Major sources of operating activities cash inflows included net student tuition and fees (\$5.4 million) and grants and contracts (\$0.7 million). The three major outflows included in the calculation of net cash used for operating activities are payments to employees (\$18 million), payments to suppliers (\$6.5 million) and payments to students for scholarships and fellowships (\$1.8 million). The net cash used for operating activities increased by \$10.2 million, primarily due to increases in payments to employees of \$6.9 million, payments to suppliers of \$4.4 million, and payments to students for scholarships and fellowships of \$0.3 million, offset by increases in tuition and fees collections of \$1 million, and grants and contracts of \$0.4 million.

The net cash provided by noncapital financing activities consists primarily of \$29 million of State noncapital appropriations, \$2.6 million of Federal and State student financial aid, and \$9.1 million for operating subsidies and transfers received during the 2010-11 fiscal year.

Cash used by capital and related financing activities increased \$1.2 million. This was mainly due to an increase in the purchase or construction of capital assets.

Cash used by investing activities increased by \$15.7 million mainly due to an increase in the purchase of investments.

CAPITAL ASSETS AND CAPITAL EXPENSES AND COMMITMENTS

CAPITAL ASSETS

At June 30, 2011, the Regional Campus had \$51.6 million in capital assets, less accumulated depreciation of \$6.3 million, for net capital assets of \$45.3 million. Depreciation charges for the current fiscal year totaled \$0.8 million. The following table summarizes the Regional Campus’s capital assets, net of accumulated depreciation, at June 30:

**Capital Assets, Net at June 30
(In Thousands)**

	2011	2010
Land	\$ 17,910	\$ 17,910
Buildings	11,792	10,653
Construction in Progress	13,590	5,734
Infrastructure and Other Improvements	27	29
Furniture and Equipment	1,851	1,386
Library Resources	24	27
Other Capital Assets	169	160
Capital Assets, Net	\$ 45,363	\$ 35,899

CAPITAL EXPENSES AND COMMITMENTS

The following table summarizes the Regional Campus’s major capital commitments at June 30, 2011:

	Amount
Current Commitment	\$ 22,022,436
Expenses	13,589,973
Balance Committed	\$ 8,432,463

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Due to the economic downturn, the Legislature has authorized tuition increases over the past few years, combined with increased technology and distance learning fees, intended to provide additional resources to support a balanced budget, the expansion of academic programs, and services to support students.

The budget adopted by the Florida Legislature for the State University System for the 2011-12 fiscal year reflected a base budget reduction for the Regional Campus of \$1,468,966. Legislative nonrecurring Federal stimulus funds will not be available to the Regional Campus after the 2010-11 fiscal year. The 2010-11 fiscal year was the second of two years stimulus funding was allocated. The Regional Campus has and will examine and evaluate their operations for efficiencies that may generate savings in both administrative and academic areas throughout the 2011-12 fiscal year.

Regional Campus management is committed to meeting its enrollment growth plan to increase full-time student enrollment from 991 in the 2011-12 fiscal year to 2,311 in the 2016-17 fiscal year. The Regional Campus is developing more daytime and on-line courses to meet enrollment targets. The Regional Campus expects to begin offering lower-level freshman courses beginning Fall 2012, and admit freshman and sophomore students in the Fall 2013 term. Activities associated with FIPRI do not directly involve student enrollment.

At the campus facility shared with Polk State College, the Regional Campus currently occupies 69,830 square feet of offices, classrooms, and both campus and student support space. The Regional Campus has been moving through the planning and approval steps necessary for development of its new campus site at Interstate 4 and the Polk Parkway. The first facility will establish an open, multipurpose design in support of the interdisciplinary and collaborative learning environment foundational to a polytechnic experience for Regional Campus students.

In the 2011-12 fiscal year, \$6 million of the Regional Campus’s budget was used to provide operating support for the doctor of pharmacy program at USF Health (per a signed memorandum of understanding), which by law, is to be housed at the Regional Campus upon completion of a pharmacy facility at the Regional Campus.

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, FL 33620-5800.

BASIC FINANCIAL STATEMENTS

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
STATEMENT OF NET ASSETS
June 30, 2011**

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,206,947
Investments	27,315,420
Accounts Receivable, Net	416,697
Loans and Notes Receivable, Net	29,233
Due from State	<u>20,944,603</u>
Total Current Assets	<u>52,912,900</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	596,622
Restricted Investments	3,876,315
Loans and Notes Receivable, Net	68,211
Depreciable Capital Assets, Net	13,863,311
Nondepreciable Capital Assets	<u>31,499,973</u>
Total Noncurrent Assets	<u>49,904,432</u>

TOTAL ASSETS\$ 102,817,332**LIABILITIES**

Current Liabilities:

Accounts Payable	\$ 289,455
Construction Contracts Payable	47,334
Salaries and Wages Payable	310,128
Deposits Payable	7,063
Deferred Revenue	67,360
Long-Term Liabilities - Current Portion:	
Compensated Absences Payable	<u>111,818</u>
Total Current Liabilities	<u>833,158</u>

UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2011

LIABILITIES (Continued)

Noncurrent Liabilities:

Federal Advance Payable	\$ 79,306
Compensated Absences Payable	1,220,305
Other Postemployment Benefits Payable	<u>728,973</u>

Total Noncurrent Liabilities 2,028,584

TOTAL LIABILITIES 2,861,742

NET ASSETS

Invested in Capital Assets	45,363,284
Restricted for Expendable:	
Loans	19,658
Capital Projects	25,364,898
Other	1,495,700
Unrestricted	<u>27,712,050</u>

TOTAL NET ASSETS 99,955,590

TOTAL LIABILITIES AND NET ASSETS \$ 102,817,332

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

UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2011

REVENUES

Operating Revenues:

Student Tuition and Fees, Net of Scholarship Allowances of \$1,090,432	\$ 5,374,842
Federal Grants and Contracts	161,826
State and Local Grants and Contracts	146,840
Nongovernmental Grants and Contracts	228,499
Sales and Services of Auxiliary Enterprises	66,127
Interest on Loans and Notes Receivable	3,161

Total Operating Revenues 5,981,295

EXPENSES

Operating Expenses:

Compensation and Employee Benefits	18,777,618
Services and Supplies	6,469,739
Utilities and Communications	175,175
Scholarships, Fellowships, and Waivers	1,761,956
Depreciation	841,913

Total Operating Expenses 28,026,401

Operating Loss (22,045,106)

NONOPERATING REVENUES (EXPENSES)

State Noncapital Appropriations	28,980,037
Federal and State Student Financial Aid	2,552,138
State Appropriated American Recovery and Reinvestment Act Funds	678,080
Investment Income	1,042,602
Other Nonoperating Revenues	1,663,461
Nonoperating Expenses	(5,252)

Net Nonoperating Revenues 34,911,066

Income Before Other Revenues, Expenses, Gains, or Losses

State Capital Appropriations	12,865,960
Transfers To/From Other University Campuses, Net	927,403
	<u>11,023,844</u>

Increase in Net Assets 24,817,207

Net Assets, Beginning of Year 75,138,383

Net Assets, End of Year \$ 99,955,590

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

UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 5,388,252
Grants and Contracts	733,683
Sales and Services of Auxiliary Enterprises	52,041
Interest on Loans and Notes Receivable	3,116
Payments to Employees	(18,032,840)
Payments to Suppliers for Goods and Services	(6,514,193)
Payments to Students for Scholarships and Fellowships	(1,761,956)
Net Collections on Student Loans	<u>22,969</u>
Net Cash Used by Operating Activities	<u>(20,108,928)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	28,980,037
Federal and State Student Financial Aid	2,552,138
Direct Loan Program Receipts	5,804,761
Direct Loan Program Disbursements	(5,804,761)
State Appropriated American Recovery and Reinvestment Act Funds	678,080
Operating Subsidies and Transfers	9,148,578
Net Change in Funds Held for Others	1,759
Other Receipts	1,663,461
Other Expenses	<u>(16,886)</u>
Net Cash Provided by Noncapital Financing Activities	<u>43,007,167</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	6,568,264
Purchase or Construction of Capital Assets	<u>(8,570,472)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,002,208)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(18,098,356)
Investment Income	<u>35,399</u>
Net Cash Used by Investing Activities	<u>(18,062,957)</u>
Net Increase in Cash and Cash Equivalents	2,833,074
Cash and Cash Equivalents, Beginning of Year	<u>1,970,495</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,803,569</u>

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2011**

RECONCILIATION OF OPERATING LOSS**TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (22,045,106)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	841,913
Change in Assets and Liabilities:	
Receivables, Net	279,906
Accounts Payable	130,722
Salaries and Wages Payable	(228,284)
Compensated Absences Payable	552,838
Deferred Revenue	(61,140)
Other Postemployment Benefits Payable	<u>420,223</u>

NET CASH USED BY OPERATING ACTIVITIES\$ (20,108,928)**SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED
FINANCING ACTIVITIES AND NONCASH INVESTING ACTIVITIES**

The fair value of the Florida Industrial and Phosphate Research Institute's buildings and equipment that was transferred to the Regional Campus from the University pursuant to Chapter 2010-206, 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.	\$ 3,299,001
Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 1,007,203

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

UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. Effective July 1, 2008, Chapter 2008-97, Laws of Florida, designated that the Lakeland campus of the University of South Florida be established and should be known as the University of South Florida Polytechnic. The Statute further stated that the University of South Florida Polytechnic was to be fiscally autonomous, operated and maintained as a separate organizational and budget entity of the University of South Florida (a component unit of the State of Florida), and should have a Campus Board and a Campus Executive Officer. Members of the Campus Board are appointed by the University of South Florida (University) Board of Trustees upon recommendation by the University of South Florida President. One member of the Campus Board serves jointly on the University Board of Trustees. The University of South Florida Polytechnic (Regional Campus) has a governing board of five members and is a legal body with specific budget authority over the Regional Campus. Campus Board members serve four-year staggered terms.

For financial reporting purposes, the Regional Campus is a part of the University of South Florida. Accordingly, the financial statements of the Regional Campus are combined and reported in the financial statements of the University of South Florida for the fiscal year ended June 30, 2011. The financial statements of the Regional Campus have been prepared for use by the Southern Association of Colleges and Schools, and are intended to present the financial position and the changes in financial position and cash flows as of and for the fiscal year ended June 30, 2011, of only that portion of the University of South Florida that is attributable to the transactions of the Regional Campus.

Basis of Presentation. The Regional Campus'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 Regional Campus 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 Regional Campus 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

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 Regional Campus'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 Regional Campus 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*, the Regional Campus has elected to apply those FASB pronouncements issued on or before 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.

The Regional Campus'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.

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 Regional Campus'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 Regional Campus and the amount that is actually paid by a student or a third party making payment on behalf of the student. The Regional Campus applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the Regional Campus 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. Regional Campus cash deposits are held in banks qualified as public depositories under Florida

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 purchase or construct capital or other restricted assets, are classified as restricted.

Capital Assets. Regional Campus capital assets consist of land; construction in progress; buildings, infrastructure and other improvements; furniture and equipment; library resources; 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 Regional Campus has a capitalization threshold of \$1,000 for tangible personal property and \$100,000 for buildings and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 10 to 40 years, depending on construction
- Infrastructure and Other Improvements – 20 years
- Furniture and Equipment – 5 to 15 years
- Library Resources – 10 years
- Other Capital Resources – 3 to 20 years

Noncurrent Liabilities. Noncurrent liabilities include Federal advance payable, compensated absences payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year.

2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. 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 Regional Campus is authorized to invest in the Florida PRIME investment pool administered by the State Board of Administration (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. Investments set aside to purchase or construct capital assets are classified as restricted.

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

The Regional Campus’s investments at June 30, 2011, are reported at fair value, as follows:

Investment Type	Amount
Hedge Funds	\$ 2,070,099
Mutual Funds:	
Bond Index	26,551,905
Equities	922,523
Money Market	1,647,208
Total Regional Campus Investments	\$ 31,191,735

The Regional Campus’s investments consisted of various hedge funds, bond, equity, and money market mutual funds. The investment policy allows investments in pooled funds which are professionally managed and registered with the Securities and Exchange Commission, fixed-income investments, and hedge funds. The following risks apply to the Regional Campus’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 investment policy limits 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. The investment policy provides 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 investment policy provides for credit risk. The risk varies depending on the type of investment.

The following interest rate and credit risks apply to the Regional Campus’s investments in hedge funds, bond and money market mutual funds at June 30, 2011:

Investment Type	Weighted or Effective Average Maturities	Credit Quality Rating	Fair Value
Bond Index Mutual Funds	2.74 Years (1)	Not Rated	\$ 26,551,905
Hedge Funds	(2)	Not Rated	2,070,099
Money Market Mutual Fund	57 Days (3)	Not Rated	1,647,208
Total			\$ 30,269,212

- Notes: (1) Weighted-average maturity.
 (2) Information not available.
 (3) Effective average maturity.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Regional Campus’s investment in a single issuer. The investment policy provides that the maximum amount that may be invested in the securities of an individual issuer not backed by the full faith and credit of the United States Government shall not exceed five percent of the market value of the assets of the investment

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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.

3. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on loans receivable. As of June 30, 2011, the Regional Campus reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 265,223
Student Tuition and Fees	135,905
Other	<u>15,569</u>
Total Accounts Receivable	<u>\$ 416,697</u>

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

Allowance for Doubtful Receivables. Allowances for doubtful accounts, and loans and notes receivable, are reported based on 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 \$105,950 and \$71,615, respectively, at June 30, 2011.

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

4. DUE FROM STATE

This amount is Public Education Capital Outlay allocations due to the Regional Campus for construction of Regional Campus facilities.

5. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, is shown below:

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 17,910,000	\$	\$	\$	\$ 17,910,000
Construction in Progress	5,733,707		7,856,266		13,589,973
Total Nondepreciable Capital Assets	\$ 23,643,707	\$	\$ 7,856,266	\$	\$ 31,499,973
Depreciable Capital Assets:					
Buildings	\$ 11,942,951	\$ 2,068,200	\$	\$	\$ 14,011,151
Infrastructure and Other Improvements	34,920				34,920
Furniture and Equipment	3,721,704	1,144,057	800,252	114,689	5,551,324
Library Resources	35,324	23,659			58,983
Other Capital Assets	433,817	63,085	45,403	49,318	492,987
Total Depreciable Capital Assets	16,168,716	3,299,001	845,655	164,007	20,149,365
Less, Accumulated Depreciation:					
Buildings	1,289,839	571,121	358,281		2,219,241
Infrastructure and Other Improvements	5,820		1,746		7,566
Furniture and Equipment	2,335,466	1,040,281	437,446	113,226	3,699,967
Library Resources	8,226	23,208	3,983		35,417
Other Capital Assets	274,359	54,576	40,457	45,529	323,863
Total Accumulated Depreciation	3,913,710	1,689,186	841,913	158,755	6,286,054
Total Depreciable Capital Assets, Net	\$ 12,255,006	\$ 1,609,815	\$ 3,742	\$ 5,252	\$ 13,863,311

Note: (1) Represents the fair value of the Florida Industrial and Phosphate Research Institute's capital assets that were transferred to the Regional Campus by the University of South Florida pursuant to Chapter 2010-206, Laws of Florida.

6. DEFERRED REVENUE

The \$67,360 amount reported as deferred revenue includes amounts received from contracts and grants prior to fiscal year end related to subsequent accounting periods.

7. LONG-TERM LIABILITIES

Long-term liabilities of the Regional Campus at June 30, 2011, include Federal advance payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2011, is shown below:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance	Current Portion
Federal Advance Payable	\$ 96,193	\$	\$	\$ 16,887	\$ 79,306	\$
Compensated Absences Payable	779,285	257,899	376,270	81,331	1,332,123	111,818
Other Postemployment Benefits Payable	308,750	43,818	478,405	102,000	728,973	
Total Long-Term Liabilities	\$ 1,184,228	\$ 301,717	\$ 854,675	\$ 200,218	\$ 2,140,402	\$ 111,818

Note: (1) Represents the fair value of the FIPRI's June 30, 2010, liabilities for compensated absences payable and other postemployment benefits payable that was transferred to the Regional Campus from the University pursuant to Chapter 2010-206, Laws of Florida.

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Federal Advance Payable. Represents the Regional Campus'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 Regional Campus cease making Federal Perkins Loans or has excess cash in the loan program.

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 Regional Campus 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 Regional Campus 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, 2011, the estimated liability for compensated absences, which includes the Regional Campus's share of the Florida Retirement System and FICA contributions, totaled \$1,332,123. The current portion of the compensated absences liability for the Regional Campus is based on a proportionate percentage of the current liability reported by the University.

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

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The Regional Campus 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 2010-11 fiscal year, one retiree received postemployment healthcare benefits. The Regional Campus provided required contributions of \$102,000 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 \$5,524.

Annual OPEB Cost and Net OPEB Obligation. The Regional Campus's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

with the parameters of GASB 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 Regional Campus’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Regional Campus’s net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 170,000
Amortization of Unfunded Actuarial Accrued Liability	157,000
Interest on Normal Cost and Amortization	<u>13,000</u>
Annual Required Contribution	340,000
Interest on Net OPEB Obligation	20,000
Adjustment to Annual Required Contribution	<u>(16,864)</u>
Annual OPEB Cost (Expense)	343,136
Contribution Toward the OPEB Cost	<u>(102,000)</u>
Increase in Net OPEB Obligation	241,136
Net OPEB Obligation, Beginning of Year	308,750
Adjustment to Beginning of Year (1)	<u>179,087</u>
Net OPEB Obligation, End of Year	<u><u>\$ 728,973</u></u>

Note: (1) Represents an increase in the beginning balance for the liability for other postemployment benefits for University employees transferred to the Regional Campus.

The Regional Campus’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2011, and for the two preceding years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2008-09	\$ 122,319	49.1%	\$ 143,319
2009-10	224,031	28.1%	308,750
2010-11	343,136	29.7%	728,973

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$3,039,171, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,039,171 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$7,453,583 for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 40.8 percent.

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
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JUNE 30, 2011**

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 Regional Campus'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, 2011, and the Regional Campus's 2010-11 fiscal year ARC. 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. Healthcare cost trend rates were 9.02, 9.47, and 9.62 percent for the current and two subsequent years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 7.11, 10.5, and 10.5 percent for the current and two subsequent years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates are both 6.6 percent in the 2013-14 fiscal year grading identically to 5.1 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, 2011, was 26 years.

8. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the Regional Campus 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

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 2010-11 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25

Note: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include .03 percent for administrative costs of the Public Employee Optional Retirement Program.

The Regional Campus’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 Regional Campus. The Regional Campus’s contributions for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled \$249,213, \$311,546, and \$437,162, 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. Regional Campus 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 20 Regional Campus participants during the 2010-11 fiscal year. Required contributions made to the PEORP totaled \$76,383.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant 10.43 percent of the participant’s salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the university to the participant’s annuity account.

There were 102 Regional Campus participants during the 2010-11 fiscal year. Required employer contributions made to the Program totaled \$657,759 and employee contributions totaled \$218,188.

9. CONSTRUCTION COMMITMENTS

The Regional Campus’s major construction commitment at June 30, 2011, is as follows:

<u>Project Description</u>	<u>Current Commitment</u>	<u>Expenses</u>	<u>Commitment Balance</u>
Polytechnic New Campus	<u>\$ 22,022,436</u>	<u>\$ 13,589,973</u>	<u>\$ 8,432,463</u>

10. RISK MANAGEMENT PROGRAMS

The Regional Campus 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 Regional Campus participates in State self-insurance programs providing insurance for property and casualty, workers’ compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2010-11 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood losses. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$58.75 million for named windstorm and flood losses through February 14, 2011, and increased to \$61 million starting February 15, 2011. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

\$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, Regional Campus 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.

11. 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	\$ 11,944,468
Research	2,581,155
Academic Support	3,674,344
Student Services	1,156,777
Institutional Support	4,218,254
Operation and Maintenance of Plant	1,783,399
Scholarships and Fellowships	1,761,956
Depreciation	841,913
Auxiliary Enterprises	55,640
Loan Operations	8,495
Total Operating Expenses	\$ 28,026,401

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

12. CURRENT UNRESTRICTED FUNDS

The Southern Association of Colleges and Schools, which establishes the accreditation requirements for institutions of higher education, requires a disclosure of the financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets. To meet this requirement, statements of net assets and revenues, expenses, and changes in net assets for the current unrestricted funds are presented, as follows:

Statement of Current Unrestricted Funds Net Assets

Assets

Current Assets:

Cash and Cash Equivalents	\$ 2,915,446
Investments	27,315,420
Account Receivables, Net	<u>130,654</u>

Total Assets	<u>30,361,520</u>
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Liabilities

Current Liabilities:

Accounts Payable	283,840
Salary and Wages Payable	310,128
Compensated Absences Payable	<u>111,724</u>

Total Current Liabilities	<u>705,692</u>
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Noncurrent Liabilities:

Compensated Absences Payable	1,214,805
Other Postemployment Benefits Payable	<u>728,973</u>

Total Noncurrent Liabilities	<u>1,943,778</u>
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Total Liabilities	<u>2,649,470</u>
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Total Net Assets	<u><u>\$ 27,712,050</u></u>
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

**Statement of Current Unrestricted Funds Revenues,
Expenses, and Changes in Net Assets**

Revenues

Operating Revenues:

Student Tuition and Fees, Net of Scholarship Allowances of \$1,090,432	\$ 4,424,737
Nongovernmental Grants and Contracts	1,454
Sales and Services of Auxiliary Enterprises	<u>66,127</u>

Total Operating Revenues 4,492,318

Expenses

Operating Expenses:

Compensation and Employee Benefits	18,519,081
Services and Supplies	6,469,739
Utilities and Communications	175,175
Scholarships, Fellowships, and Waivers	<u>88,403</u>

Total Operating Expenses 25,252,398

Operating Loss (20,760,080)

Nonoperating Revenues

State Noncapital Appropriations	28,980,037
State Appropriated American Recovery and Reinvestment Act Funds	678,080
Investment Income	872,372
Other Nonoperating Revenues	<u>1,663,461</u>

Net Nonoperating Revenues 32,193,950

**Income Before Other Revenues,
Expenses, Gains, or Losses**

11,433,870

Transfers to/from Other University Campuses, Net

4,349,827

Increase in Net Assets

15,783,697

Net Assets, Beginning of Year

11,928,353

Net Assets, End of Year

\$ 27,712,050

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (1) (b)	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	\$	\$ 2,089,531	\$ 2,089,531	0%	\$ 7,504,843	27.8%
7/1/2009	\$	\$ 3,039,171	\$ 3,039,171	0%	\$ 7,453,583	40.8%

Note: (1) Entry-Age Cost Actuarial Method used to estimate.



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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 Polytechnic (Regional Campus), a regional campus of the University of South Florida (a component unit of the State of Florida) as of and for the fiscal year ended June 30, 2011, which collectively comprise the Regional Campus's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. As discussed in Note 1 of the financial statements, the financial statements of the Regional Campus are intended to present the financial position and the changes of financial position and cash flows of the University of South Florida that are attributable to the transactions of the Regional Campus. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Regional Campus'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 Regional Campus's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Regional Campus'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 Regional Campus'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 Regional Campus'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
February 21, 2012