

UNIVERSITY OF SOUTH FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2011



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2010-11 fiscal year are listed below:

John B. Ramil, Chair
Harold W. Mullis, Jr., Vice Chair
Lee E. Arnold, Jr., to 1-06-11 (1)
Dr. Laurence G. Branch to 8-15-10 (2)
Margarita R. Cancio, M.D., to 1-06-11 (3)
Matthew A. Diaz from 5-09-11 (4)
Gene Engle
Stephanie E. Goforth from 1-20-11
Cesar Hernandez to 5-08-11 (4)
Brian D. Lamb
Dr. Elizabeth Larkin from 8-16-10 (2)
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 (1)
Jordan B. Zimmerman

Dr. Judy L. Genshaft, President

- Notes: (1) Positions remained vacant from January 7, 2011, through January 19, 2011.
(2) Faculty advisory council president (equivalent to faculty senate chair referred to in Section 1001.71(1), Florida Statutes).
(3) Position remained vacant from January 7, 2011, through May 19, 2011.
(4) 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 P. 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
TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	12
Statement of Revenues, Expenses, and Changes in Net Assets.....	14
Statement of Cash Flows.....	15
Notes to Financial Statements	17
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	47
Notes to Required Supplementary Information.....	48
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 <i>GOVERNMENT AUDITING STANDARDS</i>	49
Internal Control Over Financial Reporting.....	49
Compliance and Other Matters	50

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, 2011. 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. The results of our operational audit of the University are included in our report No. 2012-132.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

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, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, 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, 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 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, SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, 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
March 7, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The University of South Florida System is comprised of three separately accredited institutions: University of South Florida (which includes the main research campus in Tampa, its College of Marine Science in St. Petersburg, and USF Health), USF St. Petersburg, and USF Sarasota-Manatee; and a regional campus, USF Polytechnic. The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University of South Florida System (University) 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 University management.

FINANCIAL HIGHLIGHTS

The University's assets totaled \$1.6 billion at June 30, 2011. This balance reflects a \$32.1 million, or 2 percent increase from the 2009-10 fiscal year. Liabilities decreased by \$1 million, or 0.3 percent, totaling \$337.4 million at June 30, 2011, compared to \$338.4 million at June 30, 2010. As a result, the University's net assets increased by \$33.1 million, reaching a year-end balance of \$1.3 billion.

The University's operating revenues totaled \$610.6 million for the 2010-11 fiscal year, representing a 2.2 percent increase over the 2009-10 fiscal year due mainly to increases in student tuition and fees and sales and services of auxiliary enterprises. Operating expenses totaled \$1.1 billion for the 2010-11 fiscal year, representing an increase of 6.4 percent over the 2009-10 fiscal year due mainly to increases in expenses for compensation and employee benefits; services and supplies; scholarships, fellowships, and waivers; and self-insurance claims and expenses.

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
- University Medical Service Association, Inc.

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

THE STATEMENT OF NET ASSETS

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

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

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

	2011	2010
Assets		
Current Assets	\$ 671,362	\$ 729,415
Capital Assets, Net	875,705	787,634
Other Noncurrent Assets	90,541	88,400
Total Assets	1,637,608	1,605,449
Liabilities		
Current Liabilities	193,924	198,323
Noncurrent Liabilities	143,479	140,038
Total Liabilities	337,403	338,361
Net Assets		
Invested in Capital Assets, Net of Related Debt	790,512	683,449
Restricted	161,089	266,100
Unrestricted	348,604	317,539
Total Net Assets	\$ 1,300,205	\$ 1,267,088

The University's assets totaled \$1.6 billion at June 30, 2011. This balance reflects a \$32.1 million, or 2 percent, increase over the 2009-10 fiscal year. This increase is attributable to an increase in net capital assets of \$88.1 million and an increase in other noncurrent assets of \$2.1 million, offset by a decrease in current assets of \$58.1 million.

Current cash and investments for the University increased a total of \$28.7 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 \$0.1 million to remain relatively the same at \$65.3 million. In addition, amounts due from the State decreased by \$91.6 million as a result of the University utilizing funds owed by the State for construction. Due from component units increased \$5.2 million primarily due to an increase in Alec P. Courtelis matching funds from \$17.3 million to \$23.3 million.

Net capital assets increased by \$88.1 million due primarily to the completion of construction projects for new buildings and a continued increase in activity for construction in progress. The increase of \$2.1 million in other noncurrent assets is largely attributable to increased balances in cash and investments in the construction funds.

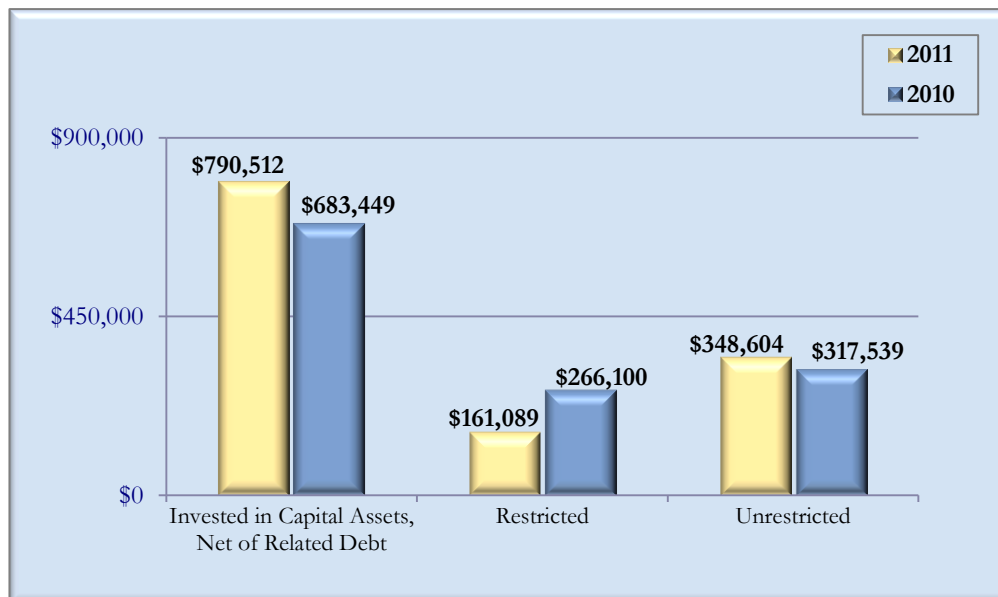
Total liabilities decreased by \$1 million, which consisted of a decrease in current liabilities of \$4.4 million offset by a \$3.4 million increase in noncurrent liabilities. The decrease in current liabilities was primarily caused by a \$18.3 million decrease in accrued salaries and wages payable which resulted from the university moving the July 1st pay date to June 30th. This decrease was offset by increases of \$2.1 million in accounts payable and \$4.7 million in construction contracts payable, combined with an increase in deferred revenues of \$10.3 million from new Alec P.

Courtelis matching funds and other unspent contracts and grants funds. Changes to noncurrent liabilities are related to increases to compensated absences liability of \$2.7 million, other postemployment benefits payable of \$8.1 million, and self-insurance claims of \$5.3 million offset by a transfer of a capital lease payable of \$9.9 million to due to the Financing Corporation (see note 10 to the financial statements) and the payment of capital improvement debt of \$2.6 million.

The combination of changes in both total assets of \$32.1 million and total liabilities of \$1 million resulted in a net increase in total net assets of \$33.1 million. This increase in total net assets is attributable to increases in capital assets, net of related debt of \$107 million and unrestricted net assets of \$31.1 million offset by a reduction in restricted net assets of \$105 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 a 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 2010-11 and 2009-10 fiscal years.

Net Assets (In Thousands)



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

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

The following summarizes the University's activity for the 2010-11 and 2009-10 fiscal years:

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

	<u>2010-11</u>	<u>2009-10</u>
Operating Revenues	\$ 610,584	\$ 597,474
Operating Expenses	<u>1,080,846</u>	<u>1,016,084</u>
Operating Loss	(470,262)	(418,610)
Net Nonoperating Revenues	<u>473,749</u>	<u>424,639</u>
Income Before Other Revenues, Expenses, Gains, or Losses	3,487	6,029
Other Revenues, Expenses, Gains, or Losses	<u>29,630</u>	<u>65,598</u>
Net Increase In Net Assets	<u>33,117</u>	<u>71,627</u>
Net Assets, Beginning of Year	1,267,088	1,165,632
Adjustments to Beginning Net Assets (1)		<u>29,829</u>
Net Assets, Beginning of Year, as Restated	<u>1,267,088</u>	<u>1,195,461</u>
Net Assets, End of Year	<u>\$ 1,300,205</u>	<u>\$ 1,267,088</u>

Note: (1) In the 2009-10 fiscal year, the University's beginning net assets 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 2010-11 and 2009-10 fiscal years:

**Operating Revenues
(In Thousands)**

	<u>2010-11</u>	<u>2009-10</u>
Net Tuition and Fees	\$ 186,432	\$ 171,139
Grants and Contracts	309,623	318,058
Sales and Services of Educational Departments	485	696
Sales and Services of Auxiliary Enterprises	104,771	99,850
Other	<u>9,273</u>	<u>7,731</u>
Total Operating Revenues	<u>\$ 610,584</u>	<u>\$ 597,474</u>

Total operating revenues increased by \$13.1 million with the change attributable to three factors. Student tuition and fees (after tuition scholarship allowance) increased by \$15.3 million due to increases in student fees assessed. Sales and services of auxiliary enterprises increased by \$4.9 million primarily from increases in housing revenues of \$3.6 million and USF Computer Store revenues of \$1 million. These increases were offset by a reduction in revenues for grants and contracts of \$8.4 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 2010-11 and 2009-10 fiscal years:

Operating Expenses		
(In Thousands)		
	<u>2010-11</u>	<u>2009-10</u>
Compensation and Employee Benefits	\$ 685,028	\$ 639,951
Services and Supplies	215,311	206,631
Utilities and Communications	26,123	27,117
Scholarships, Fellowships, and Waivers	98,497	89,620
Depreciation	48,722	48,974
Self-Insurance Claims	<u>7,165</u>	<u>3,791</u>
Total Operating Expenses	<u>\$ 1,080,846</u>	<u>\$ 1,016,084</u>

Total operating expenses increased by \$64.8 million to a total of \$1.1 billion. Increases of \$45.1 million in compensation and employee benefits, \$8.7 million in services and supplies, \$8.9 million in scholarships, fellowships, and waivers, and \$3.4 million in self-insurance claims were partially offset by small decreases in utilities and communications and depreciation expense. The increase to compensation and employees benefits was due to the early retirement incentive program for faculty, an increase in staff for University growth as well as the payment of market pay and performance adjustments for staff and administration. The increase to services and supplies was due to an increase in insurance, laboratory supplies, advertising, and plant operation and maintenance; and the increase to scholarships, fellowships, and waivers was due to increased Federal and State financial aid and as a result of the increase in student fees.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital 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 2010-11 and 2009-10 fiscal years:

Nonoperating Revenues (Expenses)
(In Thousands)

	2010-11	2009-10
State Noncapital Appropriations	\$ 329,219	\$ 304,976
Federal and State Student Financial Aid	128,204	109,441
State Appropriated American Recovery and Reinvestment Act Funds	22,332	23,360
Investment Income	21,355	26,588
Other Nonoperating Revenues	2,325	2,664
Loss on Disposal of Capital Assets	(2,851)	(5,591)
Interest on Capital Asset-Related Debt	(1,899)	(2,324)
Other Nonoperating Expenses	(24,936)	(34,475)
Net Nonoperating Revenues	\$ 473,749	\$ 424,639

Total nonoperating revenues (expenses) increased by \$49.1 million to a total of \$473.8 million. Increases of \$24.2 million in State noncapital appropriations, \$18.8 million in Federal and State student financial aid, and a decrease in other nonoperating expenses of \$9.5 million were partially offset by a \$5.2 million decrease in investment income. The increase to State noncapital appropriations is based on the State's increase of the University's lottery and general revenue appropriations. The increase in Federal and State student financial aid is primarily due to an increase in scholarships awarded, and the decrease in other nonoperating expenses is from changes in activity with component units, which is offset by a decrease in investment income due to changes in market conditions.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2010-11 and 2009-10 fiscal years:

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

	2010-11	2009-10
State Capital Appropriations	\$ 21,486	\$ 26,988
Capital Grants, Contracts, Donations, and Fees	8,144	38,610
Total	\$ 29,630	\$ 65,598

Total other revenues decreased by \$36 million. The decrease of \$5.5 million in State capital appropriations resulted from fewer new projects being funded by the State in the 2010-11 fiscal year. This decrease was coupled with a reduction in capital grants, contracts, donations, and fees of \$30.5 million as a result of the acquisition of the Johnnie B. Byrd, Sr., Alzheimer Institute's building and equipment in the 2009-10 fiscal year.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the University's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from 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 2010-11 and 2009-10 fiscal years:

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

	2010-11	2009-10
Cash Provided (Used) by:		
Operating Activities	\$ (415,706)	\$ (339,387)
Noncapital Financing Activities	443,691	393,460
Capital and Related Financing Activities	(17,600)	(15,883)
Investing Activities	(8,283)	41,488
Net Increase in Cash and Cash Equivalents	2,102	79,678
Cash and Cash Equivalents, Beginning of Year	79,778	100
Cash and Cash Equivalents, End of Year	\$ 81,880	\$ 79,778

Major sources of operating activities included net student tuition and fees (\$187.1 million), grants and contracts (\$317.2 million), and sales and services of auxiliary enterprises (\$104.8 million). Included in the calculation of net cash used for operating activities are two major outflows; payments to employees (\$692.1 million) and payments to suppliers (\$239.4 million). The net cash used for operating activities increased by \$76.3 million. The change was primarily the result of a combination of increases in payments to employees (\$67.3 million); payments to suppliers (\$7.2 million); and payments to students for scholarships and fellowships (\$8.9 million), and a decrease in grants and contracts (\$15.9 million) offset by increases in revenue from tuition and fees (\$17.3 million), and sales and services of auxiliary enterprises (\$4.7 million).

The net cash provided by noncapital financing activities consists primarily of \$351.6 million of State noncapital appropriations (including \$22.3 million of State appropriated American Recovery and Reinvestment Act (ARRA) funds received during the 2010-11 fiscal year), which was an overall increase of \$23.2 million from the 2009-10 fiscal year. Also contributing to the increase in noncapital financing activities was a change of \$18.8 million Federal and State financial aid, and a change of \$10.5 million for operating subsidies and transfers was primarily related to transfers from component units for salary and services support.

Cash used by capital and related financing activities increased by \$1.7 million. This was created by increases in State capital appropriations of \$31.6 million and capital grants, contracts, donations, and fees of \$30.7 million. These amounts were offset by an increase in the purchase or construction of capital assets of \$53 million and a decrease in capital subsidies and transfers of \$10.8 million.

Cash used by investing activities increased by \$49.8 million. This was due to a change in investment transactions of \$45 million and a decrease in investment income of \$4.8 million.

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

CAPITAL ASSETS

At June 30, 2011, the University had \$1.4 billion in capital assets, less accumulated depreciation of \$535 million, for net capital assets of \$875.7 million. Depreciation charges for the current fiscal year totaled \$48.7 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)**

	2011	2010
Land	\$ 32,695	\$ 29,061
Buildings	581,419	486,349
Construction in Progress	127,324	121,157
Infrastructure and Other Improvements	43,698	42,885
Furniture and Equipment	72,251	77,386
Library Resources	6,638	9,221
Property Under Capital Lease		11,594
Works of Art and Historical Treasures	3,756	1,965
Other Capital Assets	7,924	8,016
Capital Assets, Net	\$ 875,705	\$ 787,634

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 2010-11 fiscal year was appropriated for the following continued projects: Polytechnic Campus (\$0.6 million) and the Interdisciplinary Science Teaching Research Facility (\$7.9 million). The University’s capital commitments at June 30, 2011, are as follows:

**Capital Expense Commitments
(In Thousands)**

Current Commitment	Expenses	Commitment Balance
<u>\$ 217,333</u>	<u>\$ 127,324</u>	<u>\$ 90,009</u>

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

DEBT ADMINISTRATION

As of June 30, 2011, the University had \$37 million in outstanding capital improvement debt and installment purchase agreements, representing a decrease of \$13.3 million, or 26.4 percent, from the prior fiscal year. The decrease was directly associated with the elimination of a capital lease from the USF Foundation, Inc., which was transferred to the USF Financing Corporation and now is part of the due to component units liability. 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)**

	2011	2010
Capital Improvement Debt	\$ 36,424	\$ 38,968
Installment Purchases	532	729
Capital Lease		10,515
Total	\$ 36,956	\$ 50,212

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 noncapital appropriations for the University for the 2011-12 fiscal year are \$305.3 million, a decrease of \$19.2 million compared to the prior year base State noncapital appropriations. The decrease is attributed to a base budget reduction, which was partially offset with additional recurring and nonrecurring State funds. The decrease in State noncapital appropriations also includes a reduction of \$9.7 million associated with changes to the Florida Retirement System.

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 2011-12 fiscal year will provide additional resources.

For the 2010-11 fiscal year, the University had been appropriated \$22.3 million of ARRA funds. These funds have helped offset the 2010-11 fiscal year reductions from State general revenue appropriations, but will need to be replaced in the 2011-12 fiscal year by either new funding sources or further reductions in operating expenses. Management examines operations on an ongoing basis to identify and maximize efficiencies that generate cost savings.

The University does not expect that the State will 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. 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.

During the 2012 legislative session, the Florida Legislature passed Senate Bill 1994 creating the Florida Polytechnic University from the USF Polytechnic Campus of the USF System. The Governor has not yet approved Senate Bill 1994. If approved by the Governor, USF management will work with Florida Polytechnic University staff, once hired, to ensure a smooth transfer.

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, University of South Florida, 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, 2011

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 73,519,408	\$ 43,393,776
Investments	449,061,107	131,628,457
Accounts Receivable, Net	65,280,918	67,487,288
Loans and Notes Receivable, Net	1,350,984	
Due from State	48,023,684	
Due from University		48,619,286
Due from Component Units	30,354,539	8,680,187
Inventories	988,889	706,600
Other Current Assets	2,782,752	14,067,288
Total Current Assets	671,362,281	314,582,882
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	8,360,295	1,094,344
Restricted Investments	76,764,441	440,301,711
Loans and Notes Receivable, Net	5,112,847	
Depreciable Capital Assets, Net	710,808,506	328,687,245
Nondepreciable Capital Assets	164,896,432	32,609,941
Other Noncurrent Assets	302,980	9,092,232
Total Noncurrent Assets	966,245,501	811,785,473
TOTAL ASSETS	\$ 1,637,607,782	\$ 1,126,368,355
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 24,861,592	\$ 28,770,745
Construction Contracts Payable	16,692,513	
Salaries and Wages Payable	9,841,539	11,333,068
Deposits Payable	9,904,974	2,813,308
Due to University		30,354,539
Due to Component Units	48,619,286	8,680,187
Deferred Revenue	74,253,798	3,752,326
Long-Term Liabilities - Current Portion:		
Bonds Payable		1,390,000
Certificates of Participation Payable		7,600,000
Capital Improvement Debt Payable	2,643,827	
Loans and Notes Payable		1,195,663
Installment Purchases Payable	312,754	
Capital Leases Payable		3,250,654
Estimated Insurance Claims Payable	1,497,314	
Compensated Absences Payable	5,297,006	
Total Current Liabilities	193,924,603	99,140,490

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2011

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	\$	\$ 37,880,000
Certificates of Participation Payable		328,966,109
Capital Improvement Debt Payable	33,780,110	
Loans and Notes Payable		43,287,166
Installment Purchases Payable	218,773	
Capital Leases Payable		2,940,265
Estimated Insurance Claims Payable	21,854,873	
Compensated Absences Payable	57,807,831	
Federal Advance Payable	4,801,087	
Other Noncurrent Liabilities		30,250,110
Other Postemployment Benefits Payable	25,016,000	
Total Noncurrent Liabilities	143,478,674	443,323,650
TOTAL LIABILITIES	337,403,277	542,464,140
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	790,511,949	19,905,814
Restricted for Nonexpendable:		
Endowment		472,085,911
Restricted for Expendable:		
Debt Service	14,140,264	
Loans	5,912,341	
Capital Projects	64,106,379	
Other	76,929,989	
Unrestricted	348,603,583	91,912,490
TOTAL NET ASSETS	1,300,204,505	583,904,215
TOTAL LIABILITIES AND NET ASSETS	\$ 1,637,607,782	\$ 1,126,368,355

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, 2011**

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$88,327,958 (\$3,010,104 Pledged for Capital Improvement Parking Revenue Bonds)	\$ 186,431,905	\$
Federal Grants and Contracts	176,598,601	391,466
State and Local Grants and Contracts	18,883,785	
Nongovernmental Grants and Contracts	114,140,234	35,425,295
Sales and Services of Educational Departments	485,043	
Sales and Services of Auxiliary Enterprises (\$13,950,047 Pledged for the Capital Improvement Parking and Bookstore Revenue Bonds)	104,771,494	
Sales and Services of Component Units		247,890,754
Royalties and Licensing Fees		8,260,771
Gifts and Donations		80,679,793
Interest on Loans and Notes Receivable	187,773	
Other Operating Revenues	9,084,712	30,375,151
Total Operating Revenues	610,583,547	403,023,230
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	685,028,310	164,077,268
Services and Supplies	215,310,990	212,517,136
Utilities and Communications	26,122,332	14,898
Scholarships, Fellowships, and Waivers	98,496,577	5,258,626
Depreciation	48,722,324	18,680,675
Self-Insurance Claims	7,165,251	
Total Operating Expenses	1,080,845,784	400,548,603
Operating Income (Loss)	(470,262,237)	2,474,627
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	329,218,842	
Federal and State Student Financial Aid	128,203,752	
State Appropriated American Recovery and Reinvestment Act Funds	22,331,948	
Investment Income	21,355,375	78,119,566
Other Nonoperating Revenues	2,325,863	1,671,135
Loss on Disposal of Capital Assets	(2,851,035)	
Interest on Capital Asset-Related Debt	(1,899,119)	(10,091,896)
Other Nonoperating Expenses	(24,936,159)	(10,658,447)
Net Nonoperating Revenues	473,749,467	59,040,358
Income Before Other Revenues, Expenses, Gains, or Losses	3,487,230	61,514,985
State Capital Appropriations	21,485,713	
Capital Grants, Contracts, Donations, and Fees	8,143,769	
Increase in Net Assets	33,116,712	61,514,985
Net Assets, Beginning of Year	1,267,087,793	522,389,230
Net Assets, End of Year	\$ 1,300,204,505	\$ 583,904,215

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, 2011

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 187,075,158
Grants and Contracts	317,213,990
Sales and Services of Educational Departments	485,299
Sales and Services of Auxiliary Enterprises	104,814,619
Interest on Loans and Notes Receivable	196,464
Payments to Employees	(692,121,478)
Payments to Suppliers for Goods and Services	(239,431,942)
Payments to Students for Scholarships and Fellowships	(98,496,577)
Payments on Self-Insurance Claims and Expenses	(1,983,233)
Net Collections on Student Loans	911,576
Other Operating Receipts	5,630,011
	(415,706,113)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	329,218,842
Federal and State Student Financial Aid	128,203,752
State Appropriated American Recovery and Reinvestment Act Funds	22,331,948
Direct Loan Program Receipts	233,680,797
Direct Loan Program Disbursements	(233,680,797)
Operating Subsidies and Transfers	10,520,104
Net Change in Funds Held for Others	263,845
Other Nonoperating Receipts	2,279,099
Other Nonoperating Expenses	(49,126,905)
	443,690,685
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	112,581,736
Capital Grants, Contracts, Donations, and Fees	33,691,637
Capital Subsidies and Transfers	(6,803,110)
Purchase or Construction of Capital Assets	(151,399,208)
Principal Paid on Capital Debt	(3,787,949)
Interest Paid on Capital Debt	(1,882,946)
	(17,599,840)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(21,820,397)
Investment Income	13,537,343
	(8,283,054)
Net Increase in Cash and Cash Equivalents	2,101,678
Cash and Cash Equivalents, Beginning of Year	79,778,025
Cash and Cash Equivalents, End of Year	\$ 81,879,703

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2011**

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (470,262,237)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	48,722,324
Change in Assets and Liabilities:	
Receivables, Net	479,114
Loans and Notes Receivable, Net	911,576
Inventories	(21,304)
Other Assets	514,623
Accounts Payable	1,836,044
Salaries and Wages Payable	(18,346,401)
Deferred Revenue	4,313,454
Deposits Payable	(135,337)
Estimated Insurance Claims Payable	5,182,018
Compensated Absences Payable	3,025,013
Other Postemployment Benefits Payable	8,075,000
NET CASH USED BY OPERATING ACTIVITIES	\$ (415,706,113)

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

The transfer of the capital lease payable from the University to the Financing Corporation was recognized as a reduction of long-term debt on the statement of net assets, but is not a cash transaction for the statement of cash flows.	\$ 9,905,000
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.	\$ (2,851,035)
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.	\$ 7,818,032

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, 2011

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 thirteen 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 (GASB) *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 activities 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 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 the University 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.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Direct-Support Organizations. The University's direct-support organizations are provided for in Section 1004.28, Florida Statutes, and Board Governors Regulation 9.011. These legally separate not-for-profit corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- The University of South Florida Foundation, Inc., accepts, invests, administers and distributes private gifts given for the funding of activities and facilities directly related to the mission, role, and scope of the University of South Florida.
- The University of South Florida Alumni Association, Inc., fosters the spirit of loyalty and fraternity among the graduates, former students and friends of the University, and promotes their continued active interest in and on behalf of the University.
- The University of South Florida Medical Services Support Corporation has been developed to provide certain nonphysician personnel in support of the operation of facilities that the University owns or governs and utilized for the education, research, and patient care programs of the College of Medicine.
- The Sun Dome, Inc., operates a multi-purpose facility on behalf of the University of South Florida to provide the students, faculty and staff of the University, as well as the general public, an array of cultural, athletic, and other educational events and activities, including a variety of entertainment events.
- The University of South Florida Research Foundation, Inc., has been established to provide a means by which inventions and works may be developed, protected, applied, and utilized so that the results of University research will be made available to the public and funds will be made available from the commercial application of inventions and works to be dedicated to the benefit of the University and shared with the inventor/author.
- The USF Financing Corporation was organized and operated 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 education 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 Services 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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

of their academic activities and their employment as faculty. Because these faculty practice activities generate income, the University is authorized to regulate fees generated from faculty practice and maintain the Faculty Practice Plan for the orderly collection and distribution of fees.

Basis of Presentation. The University's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by 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 recognized when 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*, the University has elected to apply those FASB pronouncements issued on or before November 30, 1989, not in conflict with GASB standards.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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 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 noncapital 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; 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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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 – 3 to 20 years
- Library Resources – 10 years
- Other Capital Assets – 3 to 20 years
- Works of Art and Historical Treasures – 5 years

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable, installment purchases payable, estimated 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 is reported net of unamortized premium or discount and deferred losses on refunding. The University amortizes 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 debt using the straight-line method.

2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. 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 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 make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

<u>Investment Type</u>	<u>Amount</u>
United States Government Obligations	\$ 11,828,992
Federal Agency Obligations	5,061,204
Bonds and Notes	7,526,554
Stocks and Other Equity Securities	5,952,109
Hedge Funds	32,299,039
Mutual Funds:	
Bond Index	420,115,255
Equities	15,178,472
Money Market	<u>27,863,923</u>
Total University Investments	<u>\$ 525,825,548</u>

The University’s discretely presented component units’ investments at June 30, 2011, are reported at fair value as follows:

<u>Investment Type</u>	<u>University of South Florida Foundation, Inc.</u>	<u>University of South Florida Alumni Association, Inc.</u>	<u>University of South Florida Research Foundation, Inc.</u>	<u>USF Financing Corporation</u>	<u>University Medical Service Association, Inc.</u>	<u>USF Health Professions Conferencing Corporation</u>	<u>Total</u>
Bonds and Notes	\$	\$	\$	\$	\$13,085,865	\$	\$ 13,085,865
Stocks and Other Equity Securities					2,137,543		2,137,543
Investment Agreements	69,306,495	499,588	3,141,357	(515,741)			72,431,699
Hedge Funds					2,850,762		2,850,762
Mutual Funds:							
Equities	243,817,281	2,083,527	6,653,772				252,554,580
Bonds	118,675,556	999,544	15,410,590			2,032,825	137,118,515
Money Market	18,462,609	154,018	1,991,398	57,321,585	13,821,594		91,751,204
Total Component Units Investments	<u>\$ 450,261,941</u>	<u>\$ 3,736,677</u>	<u>\$ 27,197,117</u>	<u>\$ 56,805,844</u>	<u>\$ 31,895,764</u>	<u>\$ 2,032,825</u>	<u>\$ 571,930,168</u>

The University’s investments (which include investments 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

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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, 2011:

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)	3.32 Years (2)	(1)	(1)	\$ 11,828,992
Federal Agency Obligations (4)	3.17 Years (2)	Aaa	AA+	4,472,326
Federal Agency Obligations (4)	8.05 Years (2)	Not Rated	Not Rated	588,878
Bonds and Notes (4)	4.27 Years (2)	Aaa - A3	AAA - A-	7,526,554
Bond Index Mutual Funds (5)	2.74 Years (2)	Not Rated	Not Rated	420,115,255
Hedge Funds (5)	Not Available	Not Rated	Not Rated	32,299,039
Money Market Mutual Funds (4)	25 Days (3)	Aaa	AAAm	1,801,116
Money Market Mutual Funds (5)	57 Days (3)	Not Rated	Not Rated	26,062,807
Total				<u>\$ 504,694,967</u>

- 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
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

Investment Type	Investment Maturities (In Years)			
	Fair Value	Less Than 1	1-5	6-10
Mutual Funds:				
Bonds	\$15,410,590	\$ 125,401	\$8,638,732	\$ 6,646,457
Money Market	1,991,398	1,991,398		
Total	\$17,401,988	\$2,116,799	\$8,638,732	\$ 6,646,457

**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	\$15,410,590	\$ 938,093	\$1,036,554	\$1,698,712	\$11,737,231
Money Market	1,991,398	1,940,654			50,744
Total	\$17,401,988	\$ 2,878,747	\$1,036,554	\$1,698,712	\$11,787,975

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 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, 2011.

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

3. RECEIVABLES

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

Description	Amount
Contracts and Grants	\$ 46,320,175
Student Tuition and Fees	9,643,791
Other	9,316,952
Total Accounts Receivable	\$ 65,280,918

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 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 \$10,415,273 and \$2,533,407, respectively, at June 30, 2011.

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

4. DUE FROM STATE

This amount includes Public Education Capital Outlay and Capital Improvement Fee Trust Fund allocations due to the University for construction of University facilities.

5. DUE FROM AND TO COMPONENT UNITS/UNIVERSITY

The \$30,354,539 reported as due from component units consists of amounts owed to the University from the University of South Florida Foundation, Inc. (\$21,899,458), primarily for the Alec P. Courtelis Facility Matching Gift funds; by the University of South Florida Research Foundation, Inc. (\$8,418,237), for grant and special project-related deferred revenue and administrative overhead rebate; and for receivables from Sun Dome, Inc. (\$36,844), for various expenses.

The \$48,619,286 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 (\$47,253,769); to the University of South Florida Alumni Association, Inc. (\$306), for collection of ticket sales and expenses, to the USF Health Professions Conferencing Corporation (\$38,341) for amounts due for conference services, to the University of South Florida Medical Services Support Corporation (\$63,378) for plant expense reimbursements for the South Clinic, and to the University Medical Service Association, Inc.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

(\$1,263,492), for deposits made to support the funding of faculty salaries and other operating expenses at USF Health.

6. INVENTORIES

Inventories have been categorized into the following two types:

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

7. CAPITAL ASSETS

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

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 29,060,534	\$	\$ 3,634,956	\$	\$ 32,695,490
Works of Art and Historical Treasures	1,815,833		1,984,842	97,079	3,703,596
Other Capital Assets			1,173,750		1,173,750
Construction in Progress	121,156,700		85,128,763	78,961,867	127,323,596
Total Nondepreciable Capital Assets	\$ 152,033,067	\$	\$ 91,922,311	\$ 79,058,946	\$ 164,896,432
Depreciable Capital Assets:					
Buildings	\$ 778,114,055	\$ 13,200,000	\$ 108,969,652	\$ 211,750	\$ 900,071,957
Infrastructure and Other Improvements	75,249,447		3,850,202		79,099,649
Furniture and Equipment	211,104,088		13,439,090	15,469,985	209,073,193
Library Resources	27,573,753		22,260	2,000	27,594,013
Property Under Capital Lease (1)	13,200,000	(13,200,000)			
Works of Art and Historical Treasures	280,668			143,489	137,179
Other Capital Assets	29,727,320		414,598	314,358	29,827,560
Total Depreciable Capital Assets	1,135,249,331		126,695,802	16,141,582	1,245,803,551
Less, Accumulated Depreciation:					
Buildings	291,765,174	1,606,000	25,317,931	36,514	318,652,591
Infrastructure and Other Improvements	32,363,982		3,038,090		35,402,072
Furniture and Equipment	133,717,969		16,226,657	13,122,471	136,822,155
Library Resources	18,352,381		2,604,701	983	20,956,099
Property Under Capital Lease (1)	1,606,000	(1,606,000)			
Works of Art and Historical Treasures	131,409			46,972	84,437
Other Capital Assets	21,711,178		1,534,945	168,432	23,077,691
Total Accumulated Depreciation	499,648,093		48,722,324	13,375,372	534,995,045
Total Depreciable Capital Assets, Net	\$ 635,601,238	\$	\$ 77,973,478	\$ 2,766,210	\$ 710,808,506

Note: (1) The deletions for property under capital lease totaling \$13,200,000 and the respective accumulated depreciation totaling \$1,606,000 were reclassified to buildings in their respective categories.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

8. DEFERRED REVENUE

Deferred revenue includes Alec P. Courtelis Matching Trust Fund appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2011, to spend the funds, and amounts received from contracts and grants, and student tuition and fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2011, the University reported the following amounts as deferred revenue:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 46,851,072
Capital Appropriations	23,316,728
Student Tuition and Fees	<u>4,085,998</u>
Total Deferred Revenue	<u>\$ 74,253,798</u>

9. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2011, include capital improvement debt payable, installment purchases payable, estimated insurance claims payable, compensated absences payable, Federal advance payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2011, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Capital Improvement Debt Payable	\$ 38,967,764	\$	\$ 2,543,827	\$ 36,423,937	\$2,643,827
Installment Purchases Payable	728,844	420,631	617,948	531,527	312,754
Capital Leases Payable	10,515,000		10,515,000		
Estimated Insurance Claims Payable	18,170,169	7,165,251	1,983,233	23,352,187	1,497,314
Compensated Absences Payable	60,079,824	8,504,815	5,479,802	63,104,837	5,297,006
Federal Advance Payable	4,895,692		94,605	4,801,087	
Other Postemployment Benefits Payable	<u>16,941,000</u>	<u>11,489,000</u>	<u>3,414,000</u>	<u>25,016,000</u>	
Total Long-Term Liabilities	<u>\$ 150,298,293</u>	<u>\$27,579,697</u>	<u>\$24,648,415</u>	<u>\$ 153,229,575</u>	<u>\$ 9,750,901</u>

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2011:

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Capital Improvement Debt:				
1994 Bookstore	\$ 8,090,000	\$ 2,981,942	6.00	2016
2002 Parking	12,700,000	8,652,996	3.70 - 4.75	2023
2004A Parking	16,000,000	10,733,413	3.10 - 5.00	2024
2006A Parking	17,020,000	14,055,586	4.00 - 5.00	2026
Total Capital Improvement Debt	<u>\$53,810,000</u>	<u>\$36,423,937</u>		

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 \$36,423,937 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 \$48,425,907, and principal and interest paid for the current year totaled \$4,270,865. During the 2010-11 fiscal year, traffic and parking fees, transportation access fees, and bookstore revenue totaled \$12,208,829, \$3,010,104, and \$1,741,218, respectively.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2011, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	3,165,000	1,115,629	4,280,629
2017-2021	12,090,000	3,812,399	15,902,399
2022-2026	10,035,000	1,131,445	11,166,445
Subtotal	36,610,000	11,815,907	48,425,907
Less: Net Discounts, Premiums, and Losses on Refundings	<u>186,063</u>		<u>186,063</u>
Total	<u>\$ 36,423,937</u>	<u>\$ 11,815,907</u>	<u>\$ 48,239,844</u>

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Installment Purchases Payable. The University has entered into several installment purchase agreements for the purchase of equipment reported at \$943,259. The stated interest rates ranged from 1.51 percent to 2.07 percent. Future minimum payments remaining under installment purchase agreements and the present value of the minimum payments as of June 30, 2011, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2012	\$ 318,519
2013	144,309
2014	<u>78,031</u>
Total Minimum Payments	540,859
Less, Amount Representing Interest	<u>9,332</u>
Present Value of Minimum Payments	<u>\$ 531,527</u>

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 noncapital 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, 2011, the estimated liability for compensated absences, which includes the University’s share of the Florida Retirement System and FICA contributions, totaled \$63,104,837.

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 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 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

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 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 2010-11 fiscal year, 1,041 retirees received postemployment healthcare benefits. The University provided required contributions of \$3,414,000 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 \$5,751,000.

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 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 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)	\$ 5,690,000
Amortization of Unfunded Actuarial Accrued Liability	5,248,000
Interest on Normal Cost and Amortization	<u>438,000</u>
Annual Required Contribution	11,376,000
Interest on Net OPEB Obligation	678,000
Adjustment to Annual Required Contribution	<u>(565,000)</u>
Annual OPEB Cost (Expense)	11,489,000
Contribution Toward the OPEB Cost	<u>(3,414,000)</u>
Increase in Net OPEB Obligation	8,075,000
Net OPEB Obligation, Beginning of Year	<u>16,941,000</u>
Net OPEB Obligation, End of Year	<u><u>\$ 25,016,000</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, 2011, and for the two preceding years, were as follows:

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$ 6,967,000	49.2%	\$ 8,150,000
2009-10	12,249,000	28.2%	16,941,000
2010-11	11,489,000	29.7%	25,016,000

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 \$434,676,502 for the 2010-11 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 38.3 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. 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, 2011, and the University'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 fourth 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.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

10. CERTIFICATES OF PARTICIPATION - COMPONENT UNIT

Certificates of Participation Series 2003A. The Series 2003A Certificates were issued pursuant to an amended and supplemented trust indenture, dated March 1, 2003, by and between the University of South Florida Foundation, Inc. (Foundation), and a trustee. The \$13,200,000 certificates were issued to finance the construction of an athletic training facility located on the University's Tampa campus pursuant to a ground lease between the University and the Foundation. The Certificates were issued as variable rate debt secured by a direct-pay letter of credit issued by the trustee. Due to recent downgrades of the trustee's short-term credit rating, the Certificates were remarketed at interest rates reflective of the credit quality of the trustee, causing increased interest costs. On March 15, 2011, the trustee agreed to convert the interest rate from variable to fixed and purchase the Certificates for their own account. Simultaneously with the conversion to a fixed rate, the USF Financing Corporation accepted an assignment from the Foundation of its rights, title, interest, and obligations related to the \$9,905,000 outstanding Series 2003A Certificates. The Series 2003A Certificates bear a fixed interest rate of 3.14 percent. The Series 2003A Certificates mature in 2022.

The 2003A Certificates were issued pursuant to the terms of a Trust Indenture dated as of March 1, 2003, by and between the Foundation and the Trustee, as amended and supplemented from time to time, including, particularly, as supplemented by that certain First Supplement to Trust Indenture dated November 16, 2005, the Second Supplement to Trust Indenture dated as of March 8, 2011, and the Third Supplement and Amendment to Trust Indenture dated as of March 15, 2011, both by and between the Foundation and the Trustee. The project is leased by the Foundation to the University Board of Trustees pursuant to a Master Operating Lease dated as of March 1, 2003, as amended by the First Amendment to Master Operating Lease dated December 1, 2005, each by and between the Foundation, as lessor, and the University Board, as lessee.

For the Series 2003A Certificates, the Foundation has entered into a Master Ground Lease Agreement dated as of March 1, 2003, by and between the University Board of Trustee, as ground lessor, and the Foundation, as ground lessee.

Certificates of Participation Series 2005A and 2005B. 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. 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 2005A Certificates mature in 2023 and the Series 2005B Certificates mature in 2035.

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,

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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.

Certificates of Participation Series 2005C. 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. The Series 2005C fixed rate Certificates bear a true interest cost to maturity of 4.557 percent. The Series 2005C Certificates mature in 2036.

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. 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.

Certificates of Participation Series 2006A. 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. The Series 2006A variable rate Certificates have been hedged to limit the effect of changes in interest rates, and bear a true interest cost to maturity of 3.918 percent. The Series 2006A Certificates mature in 2036.

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. 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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

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

Certificates of Participation Series 2007 (Housing). 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. The Series 2007 variable rate Certificates (Housing) have been hedged to limit the effect of changes in interest rates, and bear a true interest cost to maturity of 3.582 percent. The Series 2007 Certificates (Housing) mature in 2037.

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Financing Corporation, as lessee. 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.

Certificates of Participation Series 2007 (Health). 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 2007 variable rate Certificates (Health) have been hedged to limit the effect of changes in interest rates, and bear a true interest cost to maturity of 3.714 percent. The Series 2007 Certificates (Health) mature in 2037.

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 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.

Certificates of Participation Series 2010A and 2010B. On December 14, 2010, the USF Financing Corporation issued \$2,860,000 Certificates of Participation Series 2010A (Tax-Exempt) and \$15,140,000 Certifications of Participation Series 2010B (Build America Bonds). The proceeds of the Series 2010A and 2010B Certificates are being used to finance the acquisition, construction, and installation of a mixed-use facility that includes a student center and a student housing facility on the University's St. Petersburg

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Campus, funding capitalized interest accounts, and paying certain expenses related to the issuance and sale of the Series 2010A and 2010B Certificates. The Series 2010A Certificates interest rates range from 3.0 to 5.0 percent. As the Series 2010B Certificates were issued under the Build America Bonds program, the net interest cost is equal to 65 percent of the gross interest rate which is 8.348 and 8.548 percent. The Series 2010A Certificates mature in 2020 and the Series 2010B Certificates mature from 2021 to 2040.

The Series 2010A and 2010B Certificates were issued pursuant to a Master Trust Agreement dated as of May 1, 2005, as supplemented by the Series 2010 Supplemental Trust Agreement, dated December 1, 2010, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. For the Series 2010A and 2010B Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated as of December 1, 2010, with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the Series 2010 Projects 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 property; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

Pursuant to a support agreement dated December 1, 2010, by and among the University of South Florida Foundation, Inc., the USF Property Corporation, and the USF Financing Corporation, the Foundation guaranteed to pay the deficiency between the principal and interest requirement on the Series 2010A and 2010B Certificates allocable to the student center portion and the University's activity and service fees pledged to cover the student center debt service. The principal and interest requirement associated with the student center is approximately 43 percent of the basic rent payment due under the lease agreement.

Principal and Interest Payments. Principal and interest payment requirements on all the Certificates of Participation outstanding as of June 30, 2011, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 7,600,000	\$ 13,555,968	\$ 21,155,968
2013	7,865,000	13,241,782	21,106,782
2014	8,515,000	12,914,063	21,429,063
2015	8,870,000	12,587,207	21,457,207
2016	9,200,000	12,232,995	21,432,995
2017-2021	52,230,000	55,182,888	107,412,888
2022-2026	60,825,000	43,511,827	104,336,827
2027-2031	71,710,000	30,428,178	102,138,178
2032-2036	87,535,000	14,539,336	102,074,336
2037-2040	21,245,000	1,736,054	22,981,054
Subtotal	335,595,000	209,930,298	545,525,298
Add, Net Discounts and Premiums	971,109		971,109
Total	\$ 336,566,109	\$ 209,930,298	\$ 546,496,407

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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 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 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 collateral in the form of cash or securities for the unrealized loss position in excess of the minimum threshold level. As of June 30, 2011, the posted collateral was \$9,650,000.

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

had a cumulative negative fair value of \$25,368,578 which represents the amount to be paid to terminate the agreements at the reporting date.

As of June 2011, 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 certificates rates paid to the hedged rates, typically a few basis points.

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

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

11. RETIREMENT PROGRAMS

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

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Senior Management Service	0.00	14.57
Florida Retirement System, Special Risk	0.00	23.25
Teachers Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
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 .03 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon retirement class 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, 2009, June 30, 2010, and June 30, 2011, totaled \$14,335,521, \$14,789,117, and \$16,446,406, 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

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

925 University participants during the 2010-11 fiscal year. Required contributions made to the PEORP totaled \$3,746,531.

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

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

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

There were 3,390 University participants during the 2010-11 fiscal year. Required employer contributions made to the Program totaled \$23,036,045 and employee contributions totaled \$9,939,941.

12. CONSTRUCTION COMMITMENTS

The University’s construction commitments at June 30, 2011, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
Sun Dome Arena	\$ 35,640,000	\$ 1,197,919	\$ 34,442,081
Interdisciplinary Science Teaching and Research Facility	80,232,583	65,811,975	14,420,608
Polytechnic Campus	22,022,436	13,589,973	8,432,463
Infrastructure (PECO)	17,130,962	9,728,599	7,402,363
Subtotal	155,025,981	90,328,466	64,697,515
Other Projects (1)	62,307,470	36,995,130	25,312,340
Total	\$ 217,333,451	\$ 127,323,596	\$ 90,009,855

Note: (1) Individual projects with current commitment balances less than \$5 million at June 30, 2011.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

13. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(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, 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. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorms 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 \$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.

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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, 2010, and June 30, 2011, 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
2009-10	\$ 18,002,120	\$ 3,791,187	\$ (3,623,138)	\$ 18,170,169
2010-11	18,170,169	7,165,251	(1,983,233)	23,352,187

14. LITIGATION

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

15. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 287,875,594
Research	252,246,515
Public Services	5,740,157
Academic Support	93,532,631
Student Services	42,838,425
Institutional Support	72,926,300
Operation and Maintenance of Plant	56,011,490
Scholarships and Fellowships	98,496,577
Auxiliary Enterprises	122,391,892
Depreciation	48,722,324
Loan Operations	63,879
Total Operating Expenses	<u>\$ 1,080,845,784</u>

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

16. SEGMENT INFORMATION

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

Condensed Statement of Net Assets

	Parking Facility Capital Improvement Debt
Assets	
Current Assets	\$ 10,167,123
Capital Assets, Net	46,104,784
Other Noncurrent Assets	7,650,069
Total Assets	63,921,976
Liabilities	
Current Liabilities	2,317,158
Noncurrent Liabilities	31,713,759
Total Liabilities	34,030,917
Net Assets	
Invested in Capital Assets, Net of Related Debt	12,965,770
Restricted - Expendable	10,559,780
Unrestricted	6,365,509
Total Net Assets	\$ 29,891,059

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

	Parking Facility Capital Improvement Debt
Operating Revenues	\$ 15,218,932
Depreciation Expense	(2,003,570)
Other Operating Expenses	(8,435,715)
Operating Income	4,779,647
Nonoperating Revenues (Expenses):	
Nonoperating Revenue	82,801
Interest Expense	(1,513,726)
Other Nonoperating Expense	(27,228)
Net Nonoperating Expenses	(1,458,153)
Increase in Net Assets	3,321,494
Net Assets, Beginning of Year	26,569,565
Net Assets, End of Year	\$ 29,891,059

Condensed Statement of Cash Flows

	Parking Facility Capital Improvement Debt
Net Cash Provided (Used) by:	
Operating Activities	\$ 7,042,680
Capital and Related Financing Activities	(4,060,038)
Investing Activities	(2,469,793)
Net Increase in Cash and Cash Equivalents	512,849
Cash and Cash Equivalents, Beginning of Year	2,372,735
Cash and Cash Equivalents, End of Year	\$ 2,885,584

17. DEFICIT UNRESTRICTED NET ASSETS – COMPONENT UNITS

The University's direct-support organization, University of South Florida Medical Services Support Corporation (MSSC), had a deficit unrestricted net asset balance of \$4,061,088 at June 30, 2011. This deficit balance can be attributed primarily to an accrued liability of \$6,088,048 related to an interest rate swap agreement due to USF Financing Corporation, a University direct-support organization (see note 10).

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

The University's direct-support organization, USF Financing Corporation (USFFC), had a deficit unrestricted net asset balance of \$508,207 at June 30, 2011. This deficit balance can be attributed primarily to USFFC's equity investment in INTO USF, Inc. (INTO USF). On January 17, 2010, USFFC entered into a subscription agreement with INTO USF, a Florida for-profit corporation, whereby USFFC subscribed for and purchased shares of common stock of INTO USF. USFFC funded its subscription to 50 percent of the issued shares of INTO USF on March 15, 2010.

In the subscription agreement, USFFC represents and warrants that its acquisition of the shares was for investment purposes only and not for resale or distribution. In accordance with ASC No. 323, *Investment – Equity Method and Joint Ventures*, USFFC has accounted for this investment under the equity method of accounting, as it owns 50 percent of INTO USF's outstanding shares and does not have control over INTO USF. USFFC recognized 50 percent of INTO USF's operating losses as of June 30, 2011, which were \$765,741.

18. COMPONENT UNITS

The University has nine discretely presented 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:

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

	Component Units							Other Component Unit	Total	
	University of South Florida Foundation, Inc.	University of South Florida Alumni Association, Inc.	USF Health Professions Conferencing Corporation	University of South Florida Medical Services Support Corporation	Sun Dome, Inc.	University of South Florida Research Foundation, Inc.	USF Financing Corporation and USF Property Corporation (1)			Total Direct- Support Organizations
Condensed Statement of Net Assets										
Assets:										
Current Assets	\$ 131,356,080	\$ 764,507	\$ 8,391,603	\$ 8,131,565	\$ 758,782	\$ 19,455,697	\$ 65,545,557	\$ 234,403,791	\$ 80,179,091	\$ 314,582,882
Capital Assets, Net	3,908,527		2,734,260	5,700,808	1,909,819	49,326,067	294,737,292	358,316,773	2,980,413	361,297,186
Other Noncurrent Assets	369,111,290	3,061,553		6,000		21,448,309	56,805,844	450,432,996	55,291	450,488,287
Total Assets	504,375,897	3,826,060	11,125,863	13,838,373	2,668,601	90,230,073	417,088,693	1,043,153,560	83,214,795	1,126,368,355
Liabilities:										
Current Liabilities	31,156,515	1,209,474	3,444,336	15,944,954	795,697	14,081,750	21,018,208	87,650,934	11,489,556	99,140,490
Noncurrent Liabilities			985,758	1,954,507	1,043,161	42,761,532	396,578,692	443,323,650		443,323,650
Total Liabilities	31,156,515	1,209,474	4,430,094	17,899,461	1,838,858	56,843,282	417,596,900	530,974,584	11,489,556	542,464,140
Net Assets:										
Invested in Capital Assets, Net of Related Debt	3,908,527		1,300,372	967,284	716,658	10,056,067		16,948,908	2,956,906	19,905,814
Restricted	470,043,188	366,497	1,676,226					472,085,911		472,085,911
Unrestricted	(732,333)	2,250,089	3,719,171	(5,028,372)	113,085	23,330,724	(508,207)	23,144,157	68,768,333	91,912,490
Total Net Assets	\$ 473,219,382	\$ 2,616,586	\$ 6,695,769	\$ (4,061,088)	\$ 829,743	\$ 33,386,791	\$ (508,207)	\$ 512,178,976	\$ 71,725,239	\$ 583,904,215
Condensed Statement of Revenues, Expenses, and Changes in Net Assets										
Operating Revenues	\$ 82,989,521	\$ 2,172,037	\$ 20,154,299	\$ 58,017,959	\$ 2,247,416	\$ 11,182,357	\$ 44,474,309	\$ 221,237,898	\$ 181,785,332	\$ 403,023,230
Operating Expenses	100,953,856	2,060,220	21,083,727	55,305,542	2,630,161	7,973,646	30,101,500	220,108,652	180,439,951	400,548,603
Operating Income (Loss)	(17,964,335)	111,817	(929,428)	2,712,417	(382,745)	3,208,711	14,372,809	1,129,246	1,345,381	2,474,627
Net Nonoperating Revenues (Expenses)	73,400,338	549,152	(1,382)	(1,324,196)	(305,490)	622,454	(15,142,282)	57,798,594	1,241,764	59,040,358
Increase (Decrease) in Net Assets	55,436,003	660,969	(930,810)	1,388,221	(688,235)	3,831,165	(769,473)	58,927,840	2,587,145	61,514,985
Net Assets, Beginning 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
Net Assets, End of Year	\$ 473,219,382	\$ 2,616,586	\$ 6,695,769	\$ (4,061,088)	\$ 829,743	\$ 33,386,791	\$ (508,207)	\$ 512,178,976	\$ 71,725,239	\$ 583,904,215

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	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%	\$ 408,028,356	40.8%

Note: (1) The University's OPEB actuarial valuation used the entry-age cost actuarial method to estimate the actuarial accrued liability.

**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 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.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

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, 2011, 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 purpose 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*.

We noted certain matters that we reported to University management in our operational audit report No. 2012-132.

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
March 7, 2012