STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2018-066
December 2017

UNIVERSITY OF SOUTH FLORIDA

For the Fiscal Year Ended
June 30, 2017

Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2016-17 fiscal year, Dr. Judy L. Genshaft served as President of the University of South Florida and the following individuals served as Members of the Board of Trustees:

[a] System faculty council president (equivalent to faculty senate chair referred to in Section 1001.71(1), Florida Statutes).
[b] 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 team leader was Jenny L. Phipps, and the supervisor was Rachel P. Sellers, CPA.

Please address inquiries regarding this report to Jaime Hoelscher, CPA, Audit Manager, by e-mail at jaimehoelscher@aud.state.fl.us: or by telephone at (850) 412-2868.

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UNIVERSITY OF SOUTH FLORIDA

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of the University of South Florida (a component unit of the State of Florida) were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether the 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, 2017. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

AUDIT METHODOLOGY

We conducted our audit in accordance with 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.

Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL
STATE OF FLORIDA

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

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

INDEPENDENT AUDITOR'S REPORT

Report on the 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, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the blended and aggregate discretely presented component units. The financial statements of the University of South Florida Health Sciences Center Self-Insurance Program, a blended component unit, represent 3.3 percent, 2.8 percent, and 0.8 percent, respectively, of the assets, net position, and revenues reported for the University of South Florida. The financial statements of the aggregate discretely presented component units represent 100 percent of the transactions and account balances of the discretely presented component units' columns. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the blended and aggregate discretely presented component units, are based solely 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 from material misstatement. The financial statements of the University of South Florida Health Sciences Center Self-Insurance Program, a blended component unit, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of University Contributions – Florida Retirement System Pension Plan**, **Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of University Contributions – Health Insurance Subsidy Pension 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2017, 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 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 the results of that testing, and not to provide an opinion on the effectiveness of 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* in considering the University of South Florida's internal control over financial reporting and compliance.

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
December 15, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2017, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2017, and June 30, 2016.

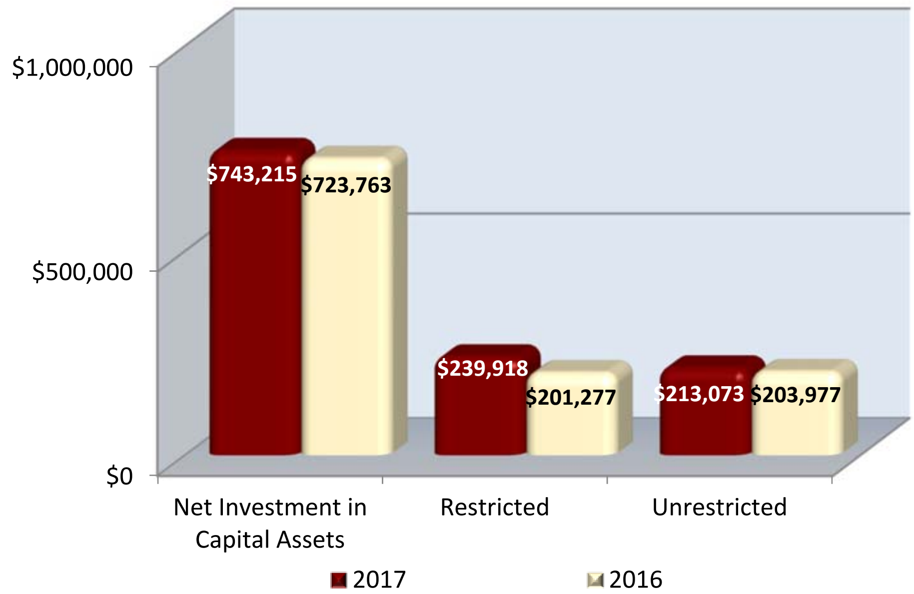
FINANCIAL HIGHLIGHTS

The University's assets and deferred outflows of resources totaled $2 billion at June 30, 2017. This balance reflects a $188.9 million, or 10.7 percent, increase as compared to the 2015-16 fiscal year, resulting from increases in cash and investments, pension-related deferred outflows, and receivables. While assets and deferred outflows of resources grew, liabilities and deferred inflows of resources increased by $121.7 million, or 19.1 percent, totaling $759.4 million at June 30, 2017, as compared to $637.7 million at June 30, 2016, resulting from increases in pension and other postemployment benefits liabilities. As a result, the University's net position increased by $67.2 million, resulting in a year-end balance of $1.2 billion.

The University's operating revenues totaled $848.2 million for the 2016-17 fiscal year, representing a 4 percent increase compared to the 2015-16 fiscal year due mainly to increases in grants and contracts and sales and services of auxiliary enterprises. Operating expenses totaled $1.3 billion for the 2016-17 fiscal year, representing an increase of 5 percent as compared to the 2015-16 fiscal year due mainly to an increase in compensation and employee benefits.

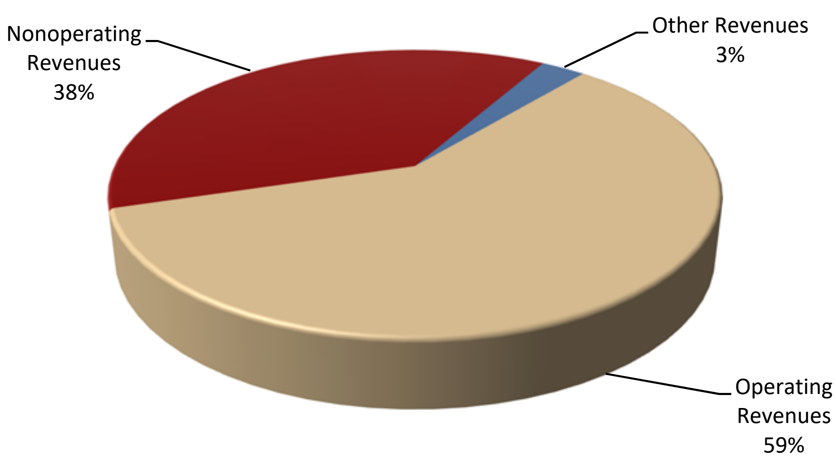
Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University's comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, is shown in the following graph:

Net Position
(In Thousands)



The following chart provides a graphical presentation of University revenues by category for the 2016-17 fiscal year:

Total Revenues



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. These component units include:

- Blended Component Unit:
  - University of South Florida Health Sciences Center Self-Insurance Program

- Discretely Presented Component Units:
  - o University of South Florida Foundation, Inc.
  - o University of South Florida Alumni Association, Inc.
  - o USF Health Professions Conferencing Corporation
  - o University of South Florida Medical Services Support Corporation
  - o Sun Dome, Inc.
  - o University of South Florida Research Foundation, Inc.
  - o USF Financing Corporation
  - o USF Property Corporation
  - o University Medical Service Association, Inc.

Information regarding these component units, including summaries of the blended and 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 discretely presented 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 Position

The statement of net position reflects the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the University, using the accrual basis of accounting, and presents the financial position of the University at a specified time. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, which is one indicator of the University's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the University's financial condition.

The following summarizes the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30:

Condensed Statement of Net Position at June 30

(In Thousands)

	2017	2016
Assets		
Current Assets	$ 894,715	$ 786,001
Capital Assets, Net	852,341	845,684
Other Noncurrent Assets	71,189	61,980
Total Assets	1,818,245	1,693,665
Deferred Outflows of Resources	137,405	73,082
Liabilities		
Current Liabilities	212,028	209,844
Noncurrent Liabilities	541,744	401,971
Total Liabilities	753,772	611,815
Deferred Inflows of Resources	5,672	25,915
Net Position		
Net Investment in Capital Assets	743,215	723,763
Restricted	239,918	201,277
Unrestricted	213,073	203,977
Total Net Position	$ 1,196,206	$ 1,129,017

Current assets for the University increased a total of $108.7 million between the 2 fiscal years due to increases in current cash and investments, net accounts receivable, and the amount due from State. Current cash and investments increased $66.2 million primarily as a result of increases in investment income, State appropriations, and auxiliary operations. Net accounts receivable increased $35 million, including $18.7 million for FCC Broadcast Television Spectrum Incentive Auction proceeds for WUSF-TV. Due from State increased $15.5 million primarily due to the additional Public Education Capital Outlay funding for the USF Morsani College of Medicine.

Deferred outflows of resources increased $64.3 million, and deferred inflows of resources decreased $20.2 million relating to pension activity.

Total liabilities increased $142 million. Major components of this increase include an increase in other postemployment benefits (OPEB) payable of $26.3 million, due to actuarial estimates, and an increase in the GASB Statement No. 68 net pension liability of $106.6 million.

Net position is reported in three major categories. The first category, net investment in capital assets, provides the University's equity in property, plant, and equipment owned by the University. Restricted net position is another category, which may be further broken down into nonexpendable and expendable. Restricted nonexpendable net position represents funds that have been donated to the University that are required to be invested in perpetuity. This net position component is primarily maintained within the University of South Florida Foundation, Inc., a component unit of the University. Restricted expendable net position is 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 position and is available to the University for any lawful purpose of the University.

The Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position 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 2016-17 and 2015-16 fiscal years:

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years

(In Thousands)

	2016-17	2015-16
Operating Revenues	$ 848,169	$ 815,705
Less, Operating Expenses	1,332,703	1,268,746
Operating Loss	(484,534)	(453,041)
Net Nonoperating Revenues	511,475	452,962
Income (Loss) Before Other Revenues	26,941	(79)
Other Revenues	40,248	41,350
Net Increase In Net Position	67,189	41,271
Net Position, Beginning of Year	1,129,017	1,087,746
Net Position, End of Year	$ 1,196,206	$ 1,129,017

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 gives or receives something of equal or similar value.

The following summarizes the operating revenues by source that were used to fund operating activities for the 2016-17 and 2015-16 fiscal years:

Operating Revenues
For the Fiscal Years

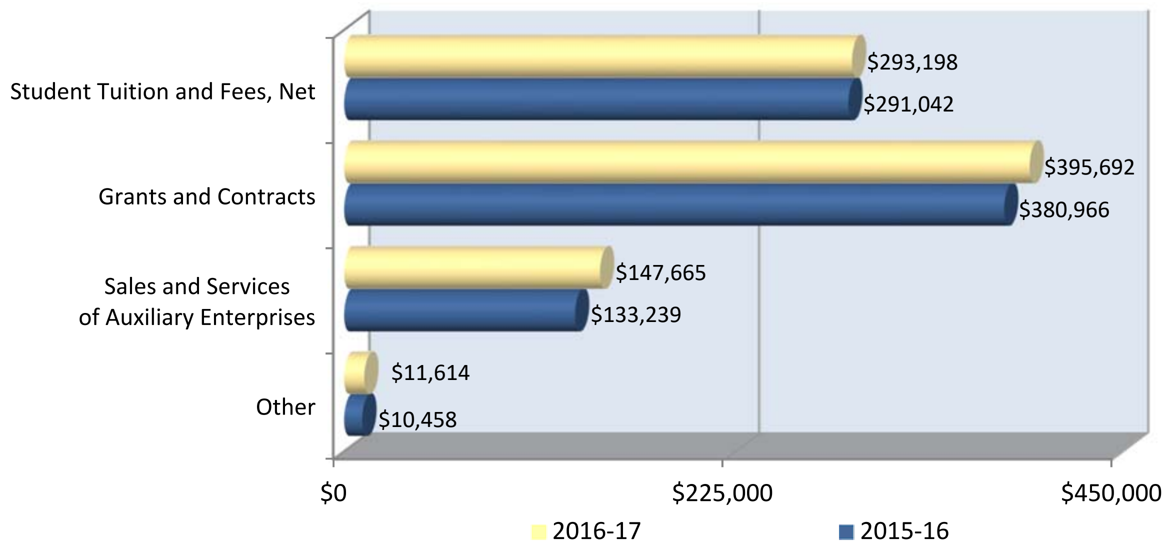
(In Thousands)

	2016-17	2015-16
Student Tuition and Fees, Net	$ 293,198	$ 291,042
Grants and Contracts	395,692	380,966
Sales and Services of Auxiliary Enterprises	147,665	133,239
Other	11,614	10,458
Total Operating Revenues	$ 848,169	$ 815,705

The following chart presents the University's operating revenues for the 2016-17 and 2015-16 fiscal years:

Operating Revenues

(In Thousands)



University operating revenues increased by $32.5 million, or 4 percent. This is primarily attributed to a $14.7 million increase in grants and contracts revenues due to grants and contracts from Federal and nongovernmental funding and a $14.4 million increase in sales and services of auxiliary enterprises generated across multiple sources.

<u>Operating Expenses</u>

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 position and has displayed the functional classification in the notes to financial statements.

The following summarizes operating expenses by natural classification for the 2016-17 and 2015-16 fiscal years:

Operating Expenses
For the Fiscal Years

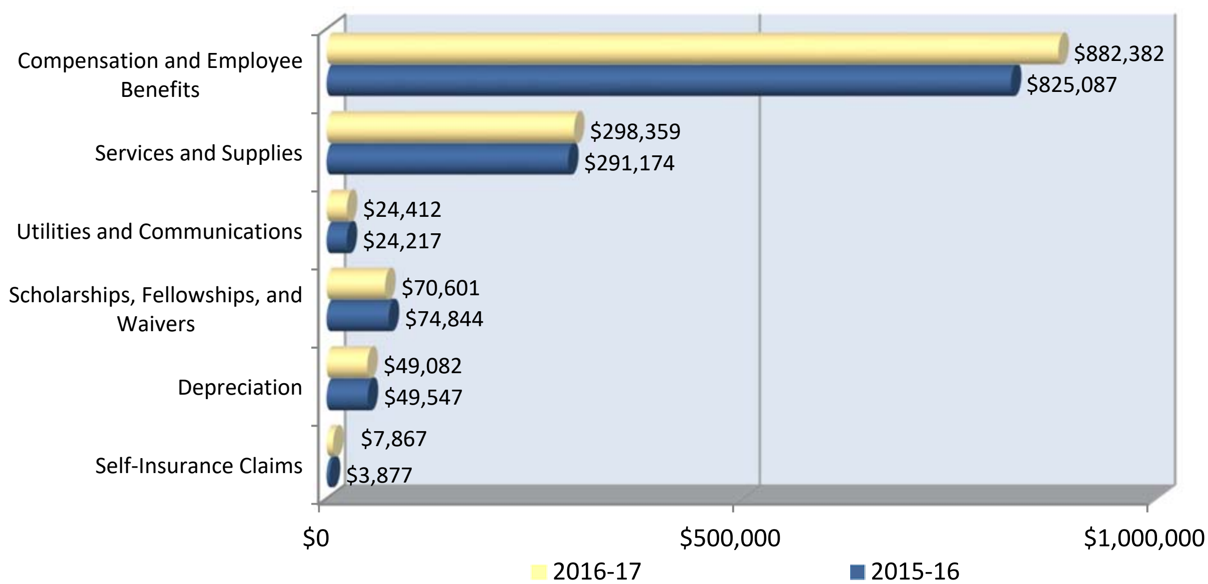
(In Thousands)

	2016-17	2015-16
Compensation and Employee Benefits	$ 882,382	$ 825,087
Services and Supplies	298,359	291,174
Utilities and Communications	24,412	24,217
Scholarships, Fellowships, and Waivers	70,601	74,844
Depreciation	49,082	49,547
Self-Insurance Claims	7,867	3,877
Total Operating Expenses	$ 1,332,703	$ 1,268,746

The following chart presents the University's operating expenses for the 2016-17 and 2015-16 fiscal years:

Operating Expenses

(In Thousands)



Total operating expenses increased by $64 million, or 5 percent, resulting primarily from a $57.3 million increase in compensation and employee benefits. The increase in compensation and employee benefits was primarily due to expenses associated with salary and benefit increases, as well as increases in pension expenses.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, 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 2016-17 and 2015-16 fiscal years:

Nonoperating Revenues (Expenses)
For the Fiscal Years

(In Thousands)

	2016-17	**2015-16**
State Noncapital Appropriations	$ 387,160	$ 368,733
Federal and State Student Financial Aid	91,884	94,867
Noncapital Grants and Donations	23,735	24,949
Investment Income	24,952	10,161
Other Nonoperating Revenues	6,030	1,710
Gain (Loss) on Disposal of Capital Assets	9,965	(812)
Interest on Capital Asset-Related Debt	(763)	(1,129)
Other Nonoperating Expenses	(31,488)	(45,517)
Net Nonoperating Revenues	$ 511,475	$ 452,962

Total net nonoperating revenues increased by $58.5 million, or 12.9 percent. Major contributors to this increase include an increase in state noncapital appropriations of $18.4 million due to Education and General funds, an increase in net investment income of $14.8 million, primarily from unrealized gains on investments, an increase in the gain on disposal of capital assets of $10.8 million, resulting from the FCC auction proceeds for WUSF-TV, and a decrease in other nonoperating expenses of $14 million, mainly due to decreased net transfers to the USF Financing Corporation.

Other Revenues

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 2016-17 and 2015-16 fiscal years:

Other Revenues
For the Fiscal Years

(In Thousands)

	2016-17	**2015-16**
State Capital Appropriations	$ 39,311	$ 40,094
Capital Grants, Contracts, Donations, and Fees	937	1,256
Total	$ 40,248	$ 41,350

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 2016-17 and 2015-16 fiscal years:

Condensed Statement of Cash Flows
For the Fiscal Years

(In Thousands)

	2016-17	**2015-16**
Cash Provided (Used) by:		
Operating Activities	$ (383,075)	$ (366,488)
Noncapital Financing Activities	470,867	432,635
Capital and Related Financing Activities	(37,130)	(28,711)
Investing Activities	(20,234)	(41,882)
Net Increase (Decrease) in Cash and Cash Equivalents	30,428	(4,446)
Cash and Cash Equivalents, Beginning of Year	41,660	46,106
Cash and Cash Equivalents, End of Year	$ 72,088	$ 41,660

Major sources of funds came from State noncapital appropriations ($387.2 million), Federal Direct Student Loan receipts ($248.8 million), net student tuition and fees ($293.9 million), grants and contracts ($391.4 million), and sales and services of auxiliary enterprises ($145.7 million). Major uses of funds were for payments made to and on behalf of employees totaling $828.9 million; payments to suppliers totaling $317.6 million; disbursements to students for Federal Direct Student Loans totaling $248.8 million.

Cash provided by noncapital financing activities increased by $38.2 million as a result of increases in State noncapital appropriations and operating subsidies and transfers. Cash used by investing activities decreased by $21.6 million, primarily due to an increase in proceeds from sales and maturities of investments.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the University had $1.5 billion in capital assets, less accumulated depreciation of $673.6 million, for net capital assets of $852.3 million. Depreciation charges for the current fiscal year totaled $49.1 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)

	2017	2016
Land	$ 16,198	$ 16,198
Construction in Progress	42,178	41,259
Buildings	692,290	687,634
Infrastructure and Other Improvements	32,197	32,806
Furniture and Equipment	53,071	52,727
Library Resources	11,515	9,664
Property Under Capital Leases	89	48
Works of Art and Historical Treasures	1,397	1,330
Other Capital Assets	3,406	4,018
Capital Assets, Net	$ 852,341	$ 845,684

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

Capital Expenses and Commitments

The University's construction commitments at June 30, 2017, are as follows:

	Amount (In Thousands)
Total Committed	$ 160,237
Completed to Date	(42,178)
Balance Committed	$ 118,059

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

Debt Administration

As of June 30, 2017, the University had $20.3 million in outstanding capital improvement debt payable, installment purchases payable, and capital leases payable, representing a decrease of $2 million, or 8.9 percent, from the prior fiscal year. 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)

	2017	2016
Capital Improvement Debt	$ 19,956	$ 22,109
Installment Purchases	236	83
Capital Leases	60	32
Total	$ 20,252	$ 22,224

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 University's economic condition is closely tied to that of the State of Florida. The budget that the Florida Legislature adopted for the 2017-18 fiscal year provided a 4.5 percent increase for State universities. Regarding the University's legislative priorities, the budget also incorporated an increase to the funding associated with the Emerging Preeminence designation in performance based funding which positively impacts the University of South Florida. This increase translated to $8.7 million in additional Educational and General Funds for the University.

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 Jennifer Condon, Associate Vice President and Controller, University of South Florida, 4202 East Fowler Avenue ALN147, Tampa, Florida 33620-5800.

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University of South Florida
A Component Unit of the State of Florida
Statement of Net Position

June 30, 2017

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 70,037,117	$ 20,369,918
Investments	611,678,974	104,283,459
Accounts Receivable, Net	110,056,643	85,579,971
Loans and Notes Receivable, Net	2,142,161	-
Due from State	90,478,039	-
Due from University	-	78,033,189
Due from Component Units	8,980,754	3,672,857
Inventories	232,038	-
Other Current Assets	1,109,654	5,511,367
Total Current Assets	894,715,380	297,450,761
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	2,050,823	1,025,000
Restricted Investments	65,165,184	532,667,789
Loans and Notes Receivable, Net	3,973,077	432,000
Depreciable Capital Assets, Net	791,478,969	289,393,589
Nondepreciable Capital Assets	60,861,732	19,498,151
Other Noncurrent Assets	-	16,827,179
Total Noncurrent Assets	923,529,785	859,843,708
Total Assets	1,818,245,165	1,157,294,469
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	137,405,152	-
Interest Rate Swap Agreement	-	156,607
Total Deferred Outflows of Resources	137,405,152	156,607
LIABILITIES		
Current Liabilities:		
Accounts Payable	27,149,357	11,491,505
Construction Contracts Payable	3,695,086	-
Salary and Wages Payable	32,791,372	12,239,814
Deposits Payable	13,901,809	1,233,618
Due to University	-	8,980,754
Due to Component Units	78,033,189	3,672,857
Unearned Revenue	43,587,540	4,784,419
Other Current Liabilities	-	43,970
Long-Term Liabilities - Current Portion:		
Bonds Payable	-	4,923,417
Certificates of Participation Payable	-	8,400,000
Capital Improvement Debt Payable	2,483,479	-
Loans and Notes Payable	-	537,466
Installment Purchase Payable	61,385	-
Capital Leases Payable	43,180	970,526
Estimated Insurance Claims Payable	1,332,333	-
Compensated Absences Payable	6,342,167	-
Net Pension Liability	2,607,447	-
Total Current Liabilities	212,028,344	57,278,346

University of South Florida
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2017

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	-	102,513,111
Certificates of Participation Payable	-	239,604,889
Capital Improvement Debt Payable	17,472,833	-
Loans and Notes Payable	-	5,221,620
Installment Purchase Payable	174,343	-
Capital Leases Payable	16,658	1,684,780
Estimated Insurance Claims Payable	25,085,161	-
Compensated Absences Payable	75,779,205	-
Federal Advance Payable	3,086,504	-
Other Noncurrent Liabilities	-	14,330,942
Other Postemployment Benefits Payable	145,284,000	-
Net Pension Liability	274,845,673	-
Total Noncurrent Liabilities	541,744,377	363,355,342
Total Liabilities	753,772,721	420,633,688
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	2,060,328	-
Deferred Service Concession Arrangement Receipts	3,611,450	-
Total Deferred Inflows of Resources	5,671,778	-
NET POSITION		
Net Investment in Capital Assets	743,214,908	39,364,572
Restricted for Nonexpendable:		
Endowment	-	589,403,222
Restricted for Expendable:		
Debt Service	1,752,396	-
Loans	5,801,357	-
Capital Projects	100,734,861	-
Other	131,629,778	-
Unrestricted	213,072,518	108,049,594
TOTAL NET POSITION	$ 1,196,205,818	$ 736,817,388

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 Position

For the Fiscal Year Ended June 30, 2017

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $110,784,410 ($3,185,670 Pledged for the Student Union Revenue Bonds)	$ 293,197,695	$ -
Federal Grants and Contracts	201,794,458	-
State and Local Grants and Contracts	26,825,208	-
Nongovernmental Grants and Contracts	167,072,179	68,848,666
Sales and Services of Auxiliary Enterprises ($10,636,504 Pledged for the Parking System Revenue Bonds)	147,664,677	-
Sales and Services of Component Units	-	249,019,497
Royalties and Licensing Fees	-	2,614,265
Gifts and Donations	-	39,402,402
Interest on Loans and Notes Receivable	203,894	-
Other Operating Revenues	11,410,671	49,582,055
Total Operating Revenues	848,168,782	409,466,885
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	882,382,402	219,273,768
Services and Supplies	298,358,831	149,622,902
Utilities and Communications	24,411,949	1,427,893
Scholarships, Fellowships, and Waivers	70,601,198	8,413,232
Depreciation	49,081,846	15,810,523
Self-Insurance Claims	7,866,825	-
Total Operating Expenses	1,332,703,051	394,548,318
Operating Income (Loss)	(484,534,269)	14,918,567
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	387,159,939	-
Federal and State Student Financial Aid	91,883,518	-
Noncapital Grants and Donations	23,735,290	-
Investment Income	24,951,906	78,286,933
Other Nonoperating Revenues	6,029,809	1,321,608
Gain on Disposal of Capital Assets	9,965,433	434,501
Interest on Capital Asset-Related Debt	(762,863)	(13,363,714)
Other Nonoperating Expenses	(31,487,894)	(23,528,558)
Net Nonoperating Revenues	511,475,138	43,150,770
Income Before Other Revenues	26,940,869	58,069,337
State Capital Appropriations	39,310,559	-
Capital Grants, Contracts, Donations, and Fees	936,915	-
Increase in Net Position	67,188,343	58,069,337
Net Position, Beginning of Year	1,129,017,475	678,748,051
Net Position, End of Year	$ 1,196,205,818	$ 736,817,388

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

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University of South Florida
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	$ 293,850,565
Grants and Contracts	391,424,939
Sales and Services of Auxiliary Enterprises	145,712,501
Interest on Loans and Notes Receivable	187,812
Payments to Employees	(828,946,180)
Payments to Suppliers for Goods and Services	(317,592,369)
Payments to Students for Scholarships and Fellowships	(70,601,198)
Payments on Self-Insurance Claims and Expenses	(2,279,053)
Loans Issued to Students	(984,101)
Collection on Loans to Students	1,140,232
Other Operating Receipts	5,011,677
Net Cash Used by Operating Activities	(383,075,175)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	387,159,939
Federal and State Student Financial Aid	91,883,517
Noncapital Grants, Contracts, and Donations	22,972,925
Federal Direct Loan Program Receipts	248,823,125
Federal Direct Loan Program Disbursements	(248,823,125)
Operating Subsidies and Transfers	11,166,157
Net Change in Funds Held for Others	(761,124)
Other Nonoperating Receipts	209,809
Other Nonoperating Disbursements	(41,763,807)
Net Cash Provided by Noncapital Financing Activities	470,867,416
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	23,854,642
Capital Grants, Contracts, Donations and Fees	200,000
Other Receipts for Capital Projects	9,275,000
Purchase or Construction of Capital Assets	(67,340,254)
Principal Paid on Capital Debt and Leases	(2,394,252)
Interest Paid on Capital Debt and Leases	(725,127)
Net Cash Used by Capital and Related Financing Activities	(37,129,991)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	48,121,451
Purchases of Investments	(87,600,000)
Investment Income	19,244,737
Net Cash Used by Investing Activities	(20,233,812)
Net Increase in Cash and Cash Equivalents	30,428,438
Cash and Cash Equivalents, Beginning of Year	41,659,502
Cash and Cash Equivalents, End of Year	$ 72,087,940

University of South Florida
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)

For the Fiscal Year Ended June 30, 2017

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (484,534,269)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	49,081,846
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	(15,896,450)
Loans and Notes Receivable, Net	156,131
Inventories	4,257
Other Assets	1,137,345
Accounts Payable	4,103,826
Salaries and Wages Payable	4,704,813
Deposits Payable	268,045
Compensated Absences Payable	3,824,042
Unearned Revenue	3,710,106
Estimated Insurance Claims Payable	5,587,772
Other Postemployment Benefits Payable	26,308,000
Net Pension Liability	106,646,875
Deferred Outflows of Resources Related to Pensions	(64,323,249)
Deferred Inflows of Resources Related to Pensions	(23,854,265)
NET CASH USED BY OPERATING ACTIVITIES	$ (383,075,175)

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES

Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ 5,707,169
Gains from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ 9,785,433
Donation of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ 736,915
The Division of Bond Finance issued $21,545,000 of Capital Improvement Parking Revenue Refunding Bonds, Series 2016A, to refund $21,270,000 of outstanding Capital Improvement Parking Revenue Bonds, Series 2002, Series 2004A, and Series 2006A. The new debt and defeasance of the old debt were recorded as an increase and a decrease, respectively, to capital improvement debt payable on the statement of net position; however, because the proceeds of the new debt were immediately placed into an irrevocable trust for the defeasance of the Series 2002, Series 2004A, and Series 2006A debt, the transaction did not affect cash and cash equivalents.	$ (275,000)

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of 5 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, and selecting 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. 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 University of South Florida Health Sciences Center Self-Insurance Program[1] is included within the University's reporting entity as a blended component unit. The University of South Florida Health Sciences Center Self-Insurance Program was created in 1972 and provides medical professional liability, covering the USF Board of Trustees and faculty, staff, and students engaged in medical programs at the University. Condensed financial statements for the University's blended component unit are shown in a subsequent note.

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following affiliated organizations (direct-support organizations) are included within the University reporting entity as a discretely presented component units. An annual audit of each discretely presented component unit's financial statements is conducted by independent certified public accountants. The annual reports are submitted to the Auditor General and the University Board of Trustees. Additional information on the University's discretely presented component units, including copies of audit reports, is available by contacting the University Controller's Office. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

[1] Effective July 1, 2016, the name changed from Medical Professional Liability Self-Insurance Program to University of South Florida Health Sciences Center Self-Insurance Program to be consistent with the name prescribed in Florida Board of Governors Regulation 10.001, *Self-Insurance Programs*.

Direct-Support Organizations. The University's direct-support organizations are provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011. These legally separate, not-for-profit corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests and valuable education support services and are governed by separate boards. 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 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.
- The University Medical Service Association, Inc. ("UMSA") is approved as the USF Health Faculty Practice Plan (the "Plan") pursuant to Florida Board of Governors Regulation 9.017 and USF Regulation 9.017. UMSA specifically functions as the University's agent for the orderly collection and administration of income generated from University faculty practice in accordance with the Plan, and employs and provides personnel to support the USF Health clinical enterprise and mission.
- The University of South Florida Medical Services Support Corporation ("MSSC") is organized and operated exclusively to receive, hold, invest and administer property and to make expenditures to or for the benefit of the University. At the September 16, 2015, Board meeting, the Board approved the transition of MSSC's operations to UMSA over the course of the 2015-16 fiscal year. MSSC continues to be a direct-support organization of the University, but has not had any operations since the time the transition was completed.

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 Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows
  - Notes to Financial Statements
- Other Required Supplementary Information

Measurement Focus and Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The University follows GASB standards of accounting and financial reporting.

The University's discretely presented component units use the economic resources measurement focus and 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.

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, and investment income (net of unrealized gains or losses on investments). Interest on capital asset-related debt is a nonoperating expense. Other revenues generally include revenues for capital construction projects.

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

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

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

Capital Assets. University capital assets consist of land; construction in progress; buildings; infrastructure and other improvements; furniture and equipment; library resources; property under capital leases; 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 acquisition value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of $5,000 for tangible personal property and $100,000 for new buildings and other building 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
- Property Under Capital Leases – 7 to 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, capital leases payable, estimated insurance claims payable, compensated absences payable, Federal advance payable, other postemployment benefits payable, and net pension liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized premium or discount. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method.

Pensions. For purposes of measuring the net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS's and the HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

2. Investments

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The 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 SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; 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; and other investments approved by the Board of Trustees as authorized by law. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

The University's recurring fair value measurements as of June 30, 2017, are valued using the following valuation techniques and inputs:

United States Treasury securities and Bonds and notes: These securities are valued daily by a pricing service that uses evaluated pricing applications which incorporate available market information. Available information is also applied through benchmarking processes, sector groupings, and matrix pricing (Level 2 inputs).

Repurchase agreements: Repurchase agreements are collateralized at 102 percent by securities guaranteed by the US Government or an agency thereof and are valued at quoted prices for similar assets in active markets (Level 2 inputs).

Stocks and other equity securities: This type includes domestic and international equities valued at quoted prices in an active market (Level 1 inputs).

Equity Mutual Funds. This category includes investments in domestic and international equities through commingled fund structures. The investment objective of these funds is to track the performance of their respective benchmarks. Investments in this category are valued at quoted prices in an active market (Level 1 inputs).

Bond Mutual Funds. This category includes investments in fixed income securities through commingled fund structures. The investment objective of these funds is to track the performance of their respective market-weighted indices with a short-term dollar-weighted average maturity. Investments in this category are valued at quoted prices in an active market (Level 1 inputs).

Alternative Mutual Funds. This category includes investments in stocks and industries, equity indices, fixed income, currencies and commodities. The investment objective of these funds is to seek positive absolute returns. The fund seeks to provide long-term returns with a low correlation to traditional asset class returns by investing in a broad spectrum of asset classes and markets. Investments in this category are valued at quoted prices in an active market (Level 1 inputs).

Money Market Mutual Funds. This category includes investments in high-quality money market instruments through commingled fund structures. The investment objectives of these funds are to maximize current income, to the extent consistent with the preservation of capital, and maintain liquidity. Investments in this category are valued at quoted prices in an active market (Level 1 inputs).

The University's investments at June 30, 2017, are reported as follows:

Investments by fair value level	Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
United States Treasury Securities	$ 11,796,958	$ -	$ 11,796,958	$ -
Repurchase Agreements	42,319,732	-	42,319,732	-
Bonds and Notes	20,397,314	-	20,397,314	-
Stocks and Other Equity Securities	14,385,226	14,385,226	-	-
Mutual Funds:				
Equities	125,035,118	125,035,118	-	-
Bonds	452,825,288	452,825,288	-	-
Alternative	6,068,186	6,068,186	-	-
Money Market	1,352,586	1,352,586	-	-
Total investments by fair value level	$674,180,408	$ 599,666,404	$ 74,514,004	$ -
Investments measured at the net asset value (NAV)				
Hedge Funds	2,663,750			
Total investments measured at NAV	2,663,750			
Total investments measured at fair value	$676,844,158			

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table:

Investments measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Hedge Funds	$ 2,663,750	$ -	Annually	95 days
Total investments measured at the NAV	$ 2,663,750			

Hedge Funds. This category includes an investment in a hedge fund of funds that seeks capital appreciation by investing with long/short equity and absolute return-oriented managers that employ a bottom up, fundamental approach to investing. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.

Component Units Investments

The University's discretely presented component units' investments at June 30, 2017, are reported at fair value as follows:

Investment Type	University of South Florida Foundation, Inc.	University of South Florida Alumni Association, Inc.	University of South Florida Research Foundation, Inc.	USF Financing Corporation	University Medical Service Association, Inc.	Total
Certificates of Deposit	$ -	$ -	$ -	$ 6,000,000	$ -	$ 6,000,000
Security Pledged to Swap Counterparty	-	-	-	6,390,000	-	6,390,000
Bonds and Notes	-	-	1,235,480		-	1,235,480
Stocks and Other Equity Securities	-	-	1,619,860	(585,974)	-	1,033,886
Investment Agreements	78,259,971	1,020,737	4,120,497	-	-	83,401,205
Hedge Funds	-	-	-	-	1,171,935	1,171,935
Mutual Funds:						
Equities	312,360,390	3,941,408	18,214,695	-	7,122,538	341,639,031
Bonds	141,764,704	1,647,438	5,248,799	-	2,693,342	151,354,283
Money Market	13,224,255	148,334	316,928	31,035,911	-	44,725,428
Total Component Units' Investments	$545,609,320	$ 6,757,917	$ 30,756,259	$ 42,839,937	$ 10,987,815	$ 636,951,248

The component units' recurring fair value measurements as of June 30, 2017, are valued using the following valuation techniques and inputs:

Investments by fair value level	Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of Deposit	$ 6,000,000	$ 6,000,000	$ -	$ -
Money Market Accounts	44,725,428	43,310,620	39,350	1,375,458
Bonds and Notes	1,235,480	-	1,235,480	-
Stocks and Other Equity Securities	1,619,860	1,619,860	-	-
Investment Agreements	150,000	-	-	150,000
Mutual Funds:				
Bonds and Notes	72,893,967	60,782,815	1,349,732	10,761,420
Stocks and Other Equity Securities	111,316,784	101,144,227	337,645	9,834,912
Total investments by fair value level	$ 237,941,519	$ 212,857,522	$ 2,962,207	$ 22,121,790
Investments measured at the net asset value (NAV)				
Hedge Funds	1,171,935			
Investment Agreements				
Private Equity	38,725,320			
Fixed Income	24,388,551			
Real Asset	20,137,334			
Mutual Funds				
Equities	230,322,247			
Bonds	78,460,316			
Total investments measured at NAV	393,205,703			
Total investments measured at fair value	$ 631,147,222			
Other				
Security Pledged to Swap Counterparty	6,390,000			
Equity Method Investment	(585,974)			
Total Other Investments	$ 5,804,026			
Total Component Unit Investments	$ 636,951,248			

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table:

Investments measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Investment Agreements:				
Private Equity	$ 38,725,320	$ 13,975,179	NA	NA
Fixed Income	24,388,551	17,360,339	Monthly	3-5 days
Real Asset	20,137,334	2,118,826	NA	NA
Hedge Funds	1,171,935	-	Annually	95 days
Mutual Funds:				
Equities	230,322,247	-	Daily/Monthly	2-30 days
Bonds	78,460,316	-	Weekly	0-7 days
Total investments measured at the NAV	$ 393,205,703	$ 33,454,344		

Private Equity and Real Asset Investments. This category consists of private capital partnerships in fund of fund underlying managers. Investments include private equity, real estate, and real assets that are not subject to redemption. The USF Foundation instead receives distributions through the liquidation of the underlying assets of the investees. The estimated remaining life on these funds range from 1 to 11 years.

Fixed Income Investments. This category consists of a high-yield bond portfolio in a commingled fund in which the manager holds publicly traded corporate bonds with some rated below investment grade. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.

Hedge Funds. This category includes an investment in a hedge fund of funds that seeks capital appreciation by investing with long/short equity and absolute return-oriented managers that employ a bottom up, fundamental approach to investing. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.

Equity Mutual Funds. This category includes investments in domestic and international equities through commingled fund structures. The investment objective of these funds is to track the performance of their respective benchmarks. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.

Bond Mutual Funds. This category includes investments in fixed income securities through commingled fund structures. The investment objective of these funds is to track the performance of their respective market-weighted indices with a short-term dollar-weighted average maturity. The fair value of the investments in this category has been estimated using the net asset value per share of the investments. The University's investments (which include investments of its blended component unit, the USF Health Sciences Center 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, repurchase agreements, hedge funds, and equity, bond, alternative, and money market mutual funds. The University investment policy, the USF Health Sciences Center Self-Insurance Program investment policy, and the Research Foundation investment policy allow investments in cash and cash equivalents, equities, mutual funds, repurchase agreements, 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, USF Health Sciences Center Self-Insurance Program, and Research Foundation 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, the USF Health Sciences Center Self-Insurance Program, and the Research Foundation investment policies limit the fixed-income portfolio (United States Treasury securities, United States government agency obligations, mortgage-based securities, corporate debt, State, and municipal securities investments) to a weighted-average duration of less than five years. For long-term investments, the University and Research Foundation investment policies do not limit the duration for long-term corporate notes or other direct debt obligations. The University and Research Foundation's investment policies provide for interest rate risk. The risk varies depending on the type of investment.

Credit Risk: Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The USF Health Sciences Center Self-Insurance Program 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, USF Health Sciences Center Self-Insurance Program and Research Foundation investments in debt securities and mutual funds at June 30, 2017:

University Debt Investment Maturity and Quality Ratings

Investment Type	Weighted Average Maturities	Credit Quality Rating: Moody's	Credit Quality Rating: Standard and Poor's	Fair Value
United States Treasury Securities (3)	3.79	(1)	(1)	$ 11,796,958
Repurchase Agreements (4)	1 Day	(2)	(2)	42,319,732
Bonds and Notes (3)	3.76	Aaa - A3	AAA - A-	19,548,669
Bonds and Notes (3)	0.54	Aaa - Aa2	Not Rated	848,645
Bond Mutual Funds (4)	3.03 Years	Not Rated	Not Rated	452,825,288
Money Market Mutual Funds (3)	21 Days	Aaa-mf	AAAm	1,352,586
Total				$ 528,691,878

Notes: (1) Disclosure of credit risk is not required for this investment type.
(2) Repurchase agreement is collateralized by a Federal Home Loan Mortgage Corporation security and is not rated.
(3) USF Health Sciences Center Self-Insurance Program.
(4) University.

University of South Florida Research Foundation, Inc.
Investment Maturity

Investment Type	Fair Value	Investment Maturites (In Years): Less Than 1	1-5	6-10	More Than 10
Bonds and Notes	$ 1,235,480	$ 94,714	$ 336,524	$ 255,832	$ 548,410
Mutual Funds:					
Bonds	5,248,799	173,256	2,007,683	3,067,860	-
Money Market	316,928	316,928	-	-	-
Total	$ 6,801,207	$ 584,898	$ 2,344,207	$ 3,323,692	$ 548,410

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

Investment Type	**Fair Value**	**AAA**	**AA**	**A**	**Less Than A or Not Rated**
Bonds and Notes	$ 1,235,480	$ 320,140	$ 131,698	$ 233,523	$ 550,119
Mutual Funds:					
Bonds	5,248,799	369,586	307,023	1,089,996	3,482,194
Money Market	316,928	-	-	-	316,928
Total	$ 6,801,207	$ 689,726	$ 438,721	$ 1,323,519	$ 4,349,241

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

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investments that are held by someone other than the University and not registered in their names. Investments for the University are held in counterparty accounts as custodian. The University investment policy provides for custodial credit risk. All investments for the USF Health Sciences Center 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, USF Health Sciences Center 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, 2017.

3. Receivables

Accounts Receivable. Accounts receivable represent amounts for contract and grant reimbursements due from third parties, student tuition and fees, various sales and services provided to students and third parties, and interest accrued on loans receivable. As of June 30, 2017, the University reported the following amounts as accounts receivable:

Description	Amount
Contracts and Grants	$ 57,104,275
Student Tuition and Fees	10,059,113
WUSF Bandwidth Auction Proceeds	18,754,503
USF Health Sciences Center Self-Insurance	6,433,256
Investment Redemption	2,447,973
Other	15,257,523
Total Accounts Receivable	$ 110,056,643

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 Doubtful Receivables. Allowances for doubtful accounts, and loans and notes receivable, are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of $16,619,751 and $1,921,380, respectively, at June 30, 2017.

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

4. Due From State

The amount due from State consists of $77,950,000 from Public Education Capital Outlay, $10,728,039 from Capital Improvement Fee Trust Fund, and $1,800,000 from lottery allocations due from the State to the University for construction of University facilities.

5. Due From and To Component Units/University

The $8,980,754 reported as due from component units consists of amounts owed to the University from the University of South Florida Research Foundation, Inc. ($8,018,081) for grant and special project-related revenue and administrative overhead rebate; from Sun Dome, Inc. ($166,247) for operating expenses; from University of South Florida Foundation, Inc. ($429,053), primarily for salary and operating expense support; from the USF Health Professions Conferencing Corporation ($296,128) for program residuals; and from the University of South Florida Alumni Association ($71,245) for payroll expenses.

The $78,033,189 reported as due to component units represents amounts owed by the University to the USF Financing Corporation for the construction and financing of buildings and pledged revenues ($77,142,635); and to the University Medical Service Association, Inc. ($890,554) for deposits made to support the funding of salaries and other operating expenses at USF Health.

6. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2017, is shown in the following table:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 16,197,729	$ -	$ -	$ 16,197,729
Works of Art and Historical Treasures	1,206,389	105,932	-	1,312,321
Other Capital Assets	1,173,750	-	-	1,173,750
Construction in Progress	41,259,352	50,691,313	49,772,733	42,177,932
Total Nondepreciable Capital Assets	$ 59,837,220	$ 50,797,245	$ 49,772,733	$ 60,861,732
Depreciable Capital Assets:				
Buildings	$ 1,159,499,435	$ 44,786,960	$ 17,337,892	$ 1,186,948,503
Infrastructure and Other Improvements	67,257,795	1,954,063	-	69,211,858
Furniture and Equipment	168,048,311	13,596,119	9,181,426	172,463,004
Library Resources	18,165,372	3,540,717	404,643	21,301,446
Property Under Capital Leases	81,338	54,541	-	135,879
Works of Art and Historical Treasures	324,600	-	-	324,600
Other Capital Assets	23,807,920	52,136	9,191,561	14,668,495
Total Depreciable Capital Assets	1,437,184,771	63,984,536	36,115,522	1,465,053,785
Less, Accumulated Depreciation:				
Buildings	471,864,905	31,742,313	8,948,762	494,658,456
Infrastructure and Other Improvements	34,452,133	2,562,830	-	37,014,963
Furniture and Equipment	115,321,316	12,430,635	8,360,347	119,391,604
Library Resources	8,501,360	1,688,007	402,334	9,787,033
Property Under Capital Leases	32,923	13,640	-	46,563
Works of Art and Historical Treasures	201,433	38,000	-	239,433
Other Capital Assets	20,963,449	606,421	9,133,106	12,436,764
Total Accumulated Depreciation	651,337,519	49,081,846	26,844,549	673,574,816
Total Depreciable Capital Assets, Net	$ 785,847,252	$ 14,902,690	$ 9,270,973	$ 791,478,969

7. Service Concession Arrangement

During the 2016-17 fiscal year, the University entered into an agreement with HSRE-Capstone Tampa LLC (Tenant), under which the Tenant will construct, operate, and collect payments for student housing and retail facilities through June 30 after the 45th anniversary of substantial completion of the new facilities. The University entered into this agreement in order to satisfy the current and projected needs and demands for student housing facilities while using its resources in an efficient and effective manner. Phase I of construction, to also include a dining facility and a health and wellness facility, is expected to be substantially completed during the 2017-18 fiscal year. Phase II is expected to be substantially completed during the 2018-19 fiscal year. The Tenant will transfer ownership of the new facilities to the University at the end of the agreement. The Tenant is entitled to all revenues and other income received from the lease of the housing facilities. The Tenant will pay the University base rent annually as a distribution of the net operating surplus as defined in the agreement. The University will pay the Tenant a fee in the amount of $300,000 per year for the use of the dining facility. The University retains the right to approve retail tenants and will oversee student housing by providing administrative services. Housing resident rental rates must be approved unanimously by an advisory committee which includes two members designated by the University. The University reports cash in the amount of $2,816,016, receivables in the amount of $1,536,450, construction in progress in the amount of $458,984, unearned revenue in the amount of $1,200,000, and deferred inflows of resources in the amount of $3,611,450 at year-end pursuant to the service concession arrangement.

8. Unearned Revenue

Unearned revenue at June 30, 2017, 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, 2017, to spend the funds, amounts received from contracts and grants, and auxiliary prepayments received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2017, the University reported the following amounts as unearned revenue:

Description	Amount
Contracts and Grants	$ 39,881,571
Capital Appropriations	334,685
Auxiliary Prepayments	3,371,284
Total Unearned Revenue	$ 43,587,540

9. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2017, include capital improvement debt payable, installment purchases payable, capital leases payable, estimated insurance claims payable, compensated absences payable, Federal advance payable, other postemployment benefits payable, and net pension liability. Long-term liabilities activity for the fiscal year ended June 30, 2017, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable	$ 22,109,187	$ 21,435,552	$ 23,588,427	$ 19,956,312	$ 2,483,479
Installment Purchases Payable	82,717	180,026	27,015	235,728	61,385
Capital Leases Payable	32,535	54,541	27,238	59,838	43,180
Estimated Insurance Claims Payable	20,829,722	7,866,825	2,279,053	26,417,494	1,332,333
Compensated Absences Payable	78,297,329	9,241,024	5,416,981	82,121,372	6,342,167
Federal Advance Payable	3,216,794	-	130,290	3,086,504	-
Other Postemployment Benefits Payable	118,976,000	32,022,000	5,714,000	145,284,000	-
Net Pension Liability	170,806,245	181,939,842	75,292,967	277,453,120	2,607,447
Total Long-Term Liabilities	$ 414,350,529	$ 252,739,810	$ 112,475,971	$ 554,614,368	$ 12,869,991

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2017:

Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rate (Percent)	Maturity Date To
Capital Improvement Debt:				
2016A Parking	$ 21,545,000	$ 19,956,312	2.20	2026
Total Capital Improvement Debt	$ 21,545,000	$ 19,956,312		

Note: (1) Amount outstanding includes unamortized discounts and premiums.

The University has pledged a portion of future traffic and parking fees and various student fee assessments to repay $19,956,312 in capital improvement (parking) 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. The bonds are payable solely from traffic and parking fees and transportation access fees and are payable through 2026. The University has committed to appropriate each year from the traffic and parking fees and transportation access fees amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is $22,029,220, and principal and interest paid for the current year totaled $3,057,465. During the 2016-17 fiscal year, traffic and parking fees and transportation access fees totaled $10,636,504 and $3,185,670, respectively.

The University extinguished long-term capital improvement debt obligations by the issuance of new long-term capital improvement debt instruments as follows:

- On December 13, 2016, the Florida Board of Governors issued $21,545,000 of Capital Improvement Parking Revenue Refunding Bonds, Series 2016A. The capital improvement debt proceeds were used to defease $21,270,000 of outstanding Capital Improvement Parking Revenue Bonds, Series 2002, Series 2004A, and Series 2006A. On January 12, 2017, the proceeds were placed in an Escrow Deposit Trust Fund to redeem to the bonds on January 13, 2017. The trust assets and the liability for the defeased bonds are not included in the University's statement of net position. As a result of the refunding, the University reduced its capital improvement debt service requirement by $1,982,158 over the next 10 years and obtained an economic gain of $1,792,127. At June 30, 2016, the outstanding balance of the defeased debt was $22,125,000.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2018	$ 2,495,000	$ 441,320	$ 2,936,320
2019	2,550,000	386,430	2,936,430
2020	2,610,000	330,330	2,940,330
2021	2,665,000	272,910	2,937,910
2022	2,715,000	214,280	2,929,280
2023-2026	7,025,000	323,950	7,348,950
Subtotal	20,060,000	1,969,220	22,029,220
Net Discounts and Premiums	(103,688)	-	(103,688)
Total	$ 19,956,312	$ 1,969,220	$ 21,925,532

Installment Purchases Payable. The University has entered into several installment purchase agreements for the purchase of equipment reported at $322,028. The stated interest rates ranged from 2.2 percent to 3.2 percent. Future minimum payments remaining under installment purchase agreements and the present value of the minimum payments as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	Amount
2018	$ 67,868
2019	67,868
2020	39,157
2021	39,157
2022	39,158
Total Minimum Payments	253,208
Less, Amount Representing Interest	17,480
Present Value of Minimum Payments	$ 235,728

Capital Leases Payable. The University has entered into a capital lease agreement for equipment in the amount of $135,879. The stated interest rates ranged from zero percent to 7.5 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	Amount
2018	$ 45,547
2019	17,080
Total Minimum Payments	62,627
Less, Amount Representing Interest	2,789
Present Value of Minimum Payments	$ 59,838

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, 2017, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled $82,121,372. The current portion of the compensated absences liability, $6,342,167, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

Federal Advance Payable. This 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. Federal capital contributions held by the University totaled $3,086,504.

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 (OPEB) Plan. The University subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB 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 OPEB Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the OPEB Plan information is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB 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 State has not advance-funded OPEB costs or the net OPEB obligation. Premiums necessary for funding the OPEB Plan each year on a pay-as-you-go basis are established by the Governor's recommended budget and the General Appropriations Act. For the 2016-17 fiscal year, 1,093 retirees received postemployment healthcare benefits. The University provided required contributions of $5,714,000 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled $7,636,000, which represents 1.5 percent of covered payroll.

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 fiscal year, the amount actually contributed to the OPEB Plan, and changes in the University's net OPEB obligation:

Description	Amount
Normal Cost (Service Cost for One Year)	$ 17,073,000
Amortization of Unfunded Actuarial Accrued Liability	13,368,000
Interest on Normal Cost and Amortization	1,218,000
Annual Required Contribution	31,659,000
Interest on Net OPEB Obligation	4,759,000
Adjustment to Annual Required Contribution	(4,396,000)
Annual OPEB Cost (Expense)	32,022,000
Contribution Toward the OPEB Cost	(5,714,000)
Increase in Net OPEB Obligation	26,308,000
Net OPEB Obligation, Beginning of Year	118,976,000
Net OPEB Obligation, End of Year	$ 145,284,000

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2017, and for the 2 preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014-15	$ 19,790,000	13.9%	$ 92,231,000
2015-16	31,812,000	15.9%	118,976,000
2016-17	32,022,000	17.8%	145,284,000

Funded Status and Funding Progress. As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $348,214,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $348,214,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $521,103,327 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 66.8 percent.

Actuarial valuations for an OPEB 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. Actuarially determined amounts regarding the funded status of the OPEB 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 OPEB 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 OPEB 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 calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial valuations used actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The University's OPEB actuarial valuation as of July 1, 2015, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2017, and the University's 2016-17 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 3.25 percent per year and an inflation rate of 3 percent. Initial healthcare cost trend rates were 3.1 percent, 7.5 percent, and 8.8 percent for the first 3 years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 3 percent, 5.7 percent, and 7 percent for the first 3 years for all retirees in the Health Maintenance Organization (HMO) Plan. 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, 2017, was 20 years.

Net Pension Liability. As a participating employer in the Florida Retirement System, the University recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2017, the University's proportionate share of the net pension liabilities totaled $277,453,120. Note 11. includes a complete discussion of defined benefit pension plans.

10. Long-Term Debt – USF Financing Corporation – 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 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 tax-exempt Certificates bear a fixed interest rate equal to 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 Trustees, as ground lessor, and the Foundation, as ground lessee.

Certificates of Participation Series 2010A and 2010B. On December 23, 2010, the USF Financing Corporation issued $2,860,000 Certificates of Participation Series 2010A (Tax-Exempt) and $15,140,000 Certificates of Participation Series 2010B (Build America Bonds). The proceeds of the Series 2010A and 2010B Certificates were used to (1) 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 Campus, (2) fund capitalized interest accounts, and (3) pay certain expenses related to the issuance and sale of the Series 2010A and 2010B Certificates. The Series 2010A fixed rate Certificates have interest rates ranging from 4 to 5 percent. As the Series 2010B fixed rate 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 8.35 and 8.55 percent. Pursuant to the requirements of the amended Balanced Budget and Emergency Deficit Control Act of 1985, during the 2016-17 fiscal year, the direct Federal subsidy was reduced and the net interest cost equaled 67.4 percent. The Series 2010A Certificates mature in 2020 and the Series 2010B Certificates mature in 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 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 re-let 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.

The support agreement provides that the Foundation may be released from its obligations and the support agreement terminated upon delivery to the Trustee of a certification by the University affirming that pledged Activity and Service fees exceed certain thresholds stipulated in the agreement. On July 8, 2016, the University provided the certification to the Trustee and the support agreement was terminated.

Certificates of Participation Series 2012A (refunded Series 2012A Certificates). On May 6, 2015, the USF Financing Corporation issued the $77,015,000 Series 2012A Remarketing Certificates of Participation to convert the Series 2012A Certificates of Participation from variable rate to fixed rate Certificates. The tax-exempt, fixed rate Remarketing Certificates have interest rates ranging from 2 to 5 percent and mature in 2035.

The Series 2012A Certificates were originally issued on October 1, 2012 as variable rate Certificates to refund the Series 2005B Certificates. The Series 2005B Certificates were issued on May 25, 2005, and the proceeds were used to (1) finance the cost to lease purchase certain student housing facilities existing on the University's Tampa campus, (2) acquire, construct, and equip a housing facility and a related parking facility on the University's St. Petersburg campus, and (3) pay certain expenses related to the issuance and sale of the Series 2005B Certificates, including the financial guaranty insurance policy premium. On March 18 and 20, 2008, the USF Financing Corporation converted the Series 2005B

Certificates from auction rate securities to variable rate demand bonds with weekly rate periods. The Certificates were secured by an irrevocable direct pay letter of credit.

The Series 2012A variable rate Certificates were largely hedged to limit the effect of changes in interest rates. On April 15, 2015, in connection with the reissuance of the Certificates, the USF Financing Corporation terminated the interest rate swap agreement related to these Certificates.

The Series 2012A Remarketing Certificates were issued pursuant to a Master Trust Agreement, dated May 1, 2005, as supplemented by the Series 2012A Supplemental Trust Agreement, dated October 1, 2012 and amended on April 1, 2015, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee.

For the Series 2012A Remarketing Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated May 1, 2005, and amended on May 1, 2015, 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 re-let properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

Certificates of Participation Series 2012B (refunded Series 2007 Certificates – Housing). On October 1, 2012, the USF Financing Corporation issued the $68,975,000 Certificates of Participation 2012B to refund the Series 2007 Certificates of Participation – Housing. The tax-exempt, variable rate Certificates are hedged to limit the effect of changes in interest rates. The Certificates have an interest rate of 4.35 and mature in 2037.

The proceeds derived from the issuance of the Series 2007 Certificates – Housing, issued on September 25, 2007, were used to (1) finance the cost to acquire, construct, and equip a certain housing facility 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 Series 2007 Certificates, including the financial guaranty insurance policy premium. The Series 2007 Certificates – Housing initially carried interest at auction rates for generally successive seven-day auction periods. On March 24, 2008, the USF Financing Corporation converted the Series 2007 Certificates – Housing from auction rate securities to variable rate demand bonds with a weekly rate period. In connection with the conversion, the USF Financing Corporation surrendered the municipal bond insurance policy. The Series 2007 Certificates were then secured pursuant to an irrevocable direct pay letter of credit, prior to being refunded by the Series 2012B Certificates.

The Series 2012B Certificates were issued pursuant to a Master Trust Agreement, dated May 1, 2005, as supplemented by the Series 2012B Supplemental Trust Agreement, dated October 1, 2012, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. For the Series 2012B Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated 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 re-let properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

Certificates of Participation Series 2013A (refunded Series 2006A Certificates). On July 1, 2016, the USF Financing Corporation converted the $37,920,000 Series 2013A Certificates from a variable rate, hedged with an interest rate swap, to a 2.31 percent fixed rate. The Series 2013A Certificates were originally issued on September 3, 2013, to refund the Series 2006A Certificates. The Certificates mature in 2036.

The proceeds derived from the issuance of the Series 2006A Certificates, issued on March 16, 2006, 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 Certificates initially carried interest at weekly rates for generally successive seven-day weekly rate periods, and were secured pursuant to two separate irrevocable direct-pay letters of credit, prior to being refunded by the Series 2013A Certificates.

The Series 2013A Certificates were issued pursuant to a Master Trust Agreement, dated March 1, 2006, as supplemented by the Series 2013A Supplemental Trust Agreement, dated September 1, 2013, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. For the Series 2013A Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated March 1, 2006, with the University Board of Trustees whereby the University has leased to the USF Property Corporation interest in the lands on which the North Clinic Facility and 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 South Clinic Facility to the University Medical Service Association, Inc. (UMSA), a direct-support organization of the University, pursuant to individual office building lease agreements, each dated March 1, 2006.

The USF Financing Corporation's right to receive all payments received from UMSA under the Facility Lease Agreements 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 re-let properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

Certificates of Participation 2013B (refunded Series 2007 Certificates – Health). On September 3, 2013, the USF Financing Corporation issued the $20,855,000 Certificates of Participation Series 2013B to refund the Series 2007 Health Certificates of Participation. The tax-exempt, variable rate Certificates are hedged to limit the effect of changes in interest rates. The Certificates have an interest rate of 4.25 and mature in 2037.

The proceeds derived from the issuance of the Series 2007 Certificates – Health, issued on November 19, 2007, 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 Certificates – Health initially carried interest at weekly rates for generally successive seven-day weekly rate periods, and were secured pursuant to an irrevocable direct-pay letter of credit, prior to being refunded by the Series 2013B Certificates.

The Series 2013B Certificates were issued pursuant to a Master Trust Agreement, dated March 1, 2006, as supplemented by the Series 2013B Supplemental Trust Agreement, dated September 1, 2013, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. For the Series 2013B Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated November 1, 2007 with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the Medical Office Building is constructed. The USF Financing Corporation has subleased the Medical Office Building to UMSA pursuant to a facility lease agreement, dated November 1, 2007.

The USF Financing Corporation's right to receive all payments from UMSA under the Facility Lease Agreement 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 re-let properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

Certificates of Participation Series 2015A (refunded Series 2005A Certificates). On May 6, 2015, the USF Financing Corporation issued the $23,640,000 Certificates of Participation Series 2015A to refund the Series 2005A Certificates of Participation. The 2015A tax-exempt, fixed rate Certificates have interest rates ranging from 2.63 to 5 percent and mature in 2023.

The proceeds of the Series 2005A Certificates, issued on May 25, 2005, were used to (1) retire or defease the University's prior housing financings, and (2) pay certain expenses related to the issuance and sale of the Series 2005A Certificates, including the financial guaranty insurance policy premium.

The Series 2015A Certificates were issued pursuant to a Master Trust Agreement, dated as of May 1, 2005, as supplemented by the Series 2015A Supplemental Trust Agreement, dated as of May 1, 2015, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee.

For the Series 2015A Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated as of May 1, 2005, and amended on May 1, 2015, with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the housing 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 re-let properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

Bonds Series 2015 – Marshall Center (refunded Series 2005C Certificates). On May 6, 2015, the USF Financing Corporation issued the $31,595,000 Series 2015 Capital Improvement Refunding

Revenue Bonds – Marshall Center to refund the Series 2005C Certificates of Participation. The tax-exempt, fixed rate Bonds have interest rates ranging from 2 to 5 percent and mature in 2036.

The proceeds derived from the issuance of the Series 2005C Certificates, issued on January 19, 2006, were used to (1) finance the construction of the Marshall Center student center, and (2) pay certain expenses related to the issuance and sale of the Series 2005C Certificates including the financial guaranty insurance policy premium.

On May 6, 2015, in connection with the refunding of the Series 2005C Certificates with the Series 2015 Marshall Center Bonds, the ground lease agreement related to the Housing facilities was amended and the Marshall Center was removed from the subject parcel. The ground lease agreement requires that any property, and improvements thereon, revert back to the University upon termination of the ground lease. Thus, on the same date, the USF Financing Corporation transferred the Marshall Center building and building improvements to the University at net book value.

The Series 2015 Bonds were issued pursuant to the terms of a Trust Indenture, dated as of May 1, 2015, by and among a Trustee and the USF Financing Corporation.

Notes Series 2010A and 2010B Athletics. On January 15, 2010 and December 15, 2010, the USF Financing Corporation issued the $10,000,000 Series 2010A Taxable Promissory Note and the $13,500,000 Series 2010B Taxable Promissory Note, respectively. The proceeds of the Notes were used to finance the acquisition, construction, and equipping of the athletics district facilities. The Series 2010A and 2010B fixed rate Notes have gross interest rates of 8.02 and 6.17 percent, respectively. As the Notes were issued under the Build America Bonds program, the net interest costs are equal to 65 percent of the gross interest rates. Pursuant to the requirements of the amended Balanced Budget and Emergency Deficit Control Act of 1985, during the 2016-17 fiscal year, the direct Federal subsidies were reduced and the net interest costs equaled 67.4 percent. The Series 2010A and 2010B Notes mature in 2030 and 2031, respectively.

For the Series 2010A and 2010B Notes, the USF Financing Corporation has entered into a Ground Lease Agreement, dated as of January 15, 2010, with the University Board of Trustees whereby the University has leased to the USF Financing Corporation the land on which the athletics district facilities are located.

Note Series 2010 CAMLS. On December 15, 2010, the USF Financing Corporation issued the $20,000,000 Series 2010 CAMLS Taxable Promissory Note. The proceeds of the Note were used to finance the acquisition, construction, and equipping of the USF Center for Advanced Medical Learning and Simulation (CAMLS) facility. The Series 2010 Note has a gross interest rate of 6.17 percent. As the Note was issued under the Build America Bonds program, the net interest cost is equal to 65 percent of the gross interest rate. Pursuant to the requirements of the amended Balanced Budget and Emergency Deficit Control Act of 1985, during the 2016-17 fiscal year, the direct Federal subsidy was reduced and the net interest cost equaled 67.4 percent. The Series 2010 Note matures in 2031.

For the Series 2010 CAMLS Note, the USF Financing Corporation has entered into a Ground Lease Agreement, dated as of December 15, 2010, with the University Board of Trustees whereby the University has leased to the USF Financing Corporation the land on which the CAMLS facility is located. The USF Financing Corporation has subleased the CAMLS facility to the USF Health Professions Conferencing Corporation, a direct-support organization of the University, pursuant to a facility lease agreement.

Note Series 2013 Sun Dome Arena. On September 27, 2013, the USF Financing Corporation issued the $20,000,000 Series 2013 Arena Taxable Promissory Note. The proceeds of the Note were used to reimburse the University of South Florida for a portion of the costs undertaken by the University to renovate the USF Sun Dome Arena. The Series 2013 Note has an interest rate of 4.78 percent and matures in 2033.

Principal and Interest Payments. Principal and interest payment requirements on the long-term debt outstanding as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2018	$ 11,733,417	$ 14,946,318	$ 26,679,735
2019	12,197,668	14,431,005	26,628,673
2020	12,734,217	13,873,378	26,607,595
2021	13,303,556	13,281,463	26,585,019
2022	13,931,215	12,687,625	26,618,840
2023-2027	75,814,007	53,076,498	128,890,505
2028-2032	90,207,032	32,283,656	122,490,688
2033-2037	82,895,000	11,392,142	94,287,142
2038-2040	9,915,000	903,160	10,818,160
Subtotal	322,731,112	166,875,245	489,606,357
Premiums	13,484,164	-	13,484,164
Costs of Issuance	(1,238,859)	-	(1,238,859)
Total	$ 334,976,417	$ 166,875,245	$ 501,851,662

Interest Rate Swap Agreements. Effective September 25, 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 2012B Certificates (refunded 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 on the total $61,775,000 principal in variable rate Series 2012B Certificates. The interest rate on the swap agreement, as amended on March 24, 2008, is 3.552 percent and the interest rate swap agreement expires July 1, 2037.

Effective November 19, 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 2013B Certificates (refunded Series 2007 Certificates – Health). The initial notional amount of the interest rate swap agreement is $22,830,000. The effect of the agreement is to limit the interest expense on the total $19,165,000 principal in the variable rate Series 2013B Certificates. The interest rate on the swap agreement is 3.397 percent and the swap agreement expires July 1, 2018.

On July 1, 2016, the interest rate swap agreement related to the Series 2013A Certificates (refunded Series 2006A Certificates) expired. The related Certificates were converted to fixed rate on the same day. The interest rate swap agreements contain collateral provisions to mitigate counterparty credit risk. The collateral provisions of the interest rate swap agreement relating to the Series 2012B Certificates require the USF Financing Corporation to maintain a rating of at least Baa1 by Moody's Investors Service or BBB+ by Standard & Poor's on its Housing Certificates. The provisions require the USF Financing Corporation to post collateral, in the form of cash or securities, for the negative valuation exposure in excess of the $10 million minimum threshold level. Additionally, the collateral provisions of the interest rate swap agreement relating to the Series 2013B Certificates, amended August 19, 2014, require the USF Financing Corporation to post collateral, in the form of cash or securities, totaling $1,000,000, regardless of fluctuations in exposure. As of June 30, 2017, the total posted collateral was $6,390,000.

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. As of June 30, 2017, the USF Financing Corporation interest rate swap agreements had a cumulative negative fair value of $13,375,342, which represents the amount to be paid to terminate the agreements at the reporting date.

As of June 30, 2017, the USF Financing Corporation was not exposed to credit risk on its outstanding interest rate swap agreements because the 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 the risk by analyzing potential debt and swap interest rate index structures to ensure an effective hedge of cash flows and tracks the spread of certificate rates paid to the hedges 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.

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 interest rate 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 Plans – Defined Benefit Pension Plans

<u>General Information about the Florida Retirement System (FRS)</u>

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class employed by the State and faculty and specified employees in the State university system.

Essentially all regular employees of the University are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of 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' Web site (www.dms.myflorida.com).

The University's FRS and HIS pension expense totaled $42,740,272 for the fiscal year ended June 30, 2017.

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class* (SMSC) – Members in senior management level positions.
- *Special Risk Class* – Members who are employed as law enforcement officers and meet the criteria to qualify for this class.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost of living adjustments to eligible participants.

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-participating employer. An employee may participate in 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 net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age, and/or years of service, average final compensation, and credit service. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following table shows the percentage value for each year of service credit earned:

Class, Initial Enrollment, and Retirement Age/Years of Service	**% Value**
Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
Regular Class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
Senior Management Service Class	2.00
Special Risk Class	
Service on and after October 1, 1974	3.00

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2016-17 fiscal year were:

Class	Percent of Gross Salary Employee	Employer (1)
FRS, Regular	3.00	7.52
FRS, Senior Management Service	3.00	21.77
FRS, Special Risk	3.00	22.57
FRS, Plan E	6.25	11.90
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	12.99
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.

(2) Contribution rates are dependent upon retirement class in which reemployed.

The University's contributions to the Plan totaled $20,316,942 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the University reported a liability of $192,838,109 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The University's proportionate share of the net pension liability was based on the University's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the University's proportionate share was 0.763712910 percent, which was a decrease of 0.000607087 from its proportionate share measured as of June 30, 2015.

For the year ended June 30, 2017, the University recognized pension expense of $34,909,101. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 14,765,169	$ 1,795,453
Change of assumptions	11,666,128	-
Net difference between projected and actual earnings on FRS Plan investments	49,846,301	-
Changes in proportion and differences between University contributions and proportionate share of contributions	19,347,062	72,153
University FRS contributions subsequent to the measurement date	20,316,942	-
Total	$ 115,941,602	$ 1,867,606

The deferred outflows of resources totaling $20,316,942, resulting from University contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2018	$ 15,764,923
2019	15,764,923
2020	35,198,105
2021	22,758,392
2022	3,316,232
Thereafter	954,479
Total	$ 93,757,054

Actuarial Assumptions. The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.60 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	100%			
Assumed inflation - Mean			2.6%	1.9%

Note: (1) As outlined in the Plan's investment policy.

Discount Rate. The discount rate used to measure the total pension liability was 7.60 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The discount rate used to determine the total pension liability decreased from 7.65 percent from the prior measurement date.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60 percent) or 1 percentage point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	**Current Discount Rate (7.60%)**	**1% Increase (8.60%)**
University's proportionate share of the net pension liability	$355,028,015	$192,838,109	$ 57,836,433

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended June 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of $5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of $30 and a maximum HIS payment of $150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2017, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The University contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The University's contributions to the HIS Plan totaled $3,803,232 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the University reported a liability of $84,615,011 for its proportionate share of the net pension liability. The current portion of the net pension liability is the

University's proportionate share of benefit payments expected to be paid within one year, net of the University's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The University's proportionate share of the net pension liability was based on the University's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the University's proportionate share was 0.726023325 percent, which was an increase of 0.019207795 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the University recognized pension expense of $7,831,171. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	$ 13,278,246	$ -
Difference between actual and expected experience	-	192,722
Net difference between projected and actual earnings on HIS Plan investments	42,783	-
Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions	4,339,289	-
University HIS contributions subsequent to the measurement date	3,803,232	-
Total	$ 21,463,550	$ 192,722

The deferred outflows of resources totaling $3,803,232 resulting from University contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2018	$ 3,151,597
2019	3,151,597
2020	3,143,451
2021	3,139,540
2022	2,763,999
Thereafter	2,117,412
Total	$ 17,467,596

Actuarial Assumptions. The total pension liability at July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal bond rate	2.85 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

While an experience study had not been completed for the HIS Plan, the actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study for the FRS Plan.

Discount Rate. The discount rate used to measure the total pension liability was 2.85 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 3.80 percent from the prior measurement date.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 2.85 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
University's proportionate share of the net pension liability	$97,072,641	$84,615,011	$74,275,858

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Comprehensive Annual Financial Report.

12. Retirement Plans – Defined Contribution Pension Plans

FRS Investment Plan. The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2016-17 fiscal year were as follows:

Class	**Percent of Gross Compensation**
FRS, Regular	6.30
FRS, Senior Management Service	7.67
FRS, Special Risk Regular	14.00

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the University.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The University's Investment Plan pension expense totaled $4,788,913 for the fiscal year ended June 30, 2017.

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 FRS for 8 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 5.14 percent of the participant's salary to the participant's account, 2.83 percent to cover the unfunded actuarial liability of the FRS pension plan, 0.01 percent to cover administrative costs, for a total of 7.98 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The University's contributions to the Program totaled $22,566,754, and employee contributions totaled $15,229,214 for the 2016-17 fiscal year.

13. Construction Commitments

The University's construction commitments at June 30, 2017, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
USF Morsani College of Medicine	$ 44,868,809	$ 359,855	$ 44,508,954
USF Health Heart Institute	34,818,914	6,717,672	28,101,242
USF Health Student Union Annex	8,743,363	8,460,417	282,946
Magnolia Residence Hall Exterior Upgrade	7,921,961	3,921,961	4,000,000
Holly Residence Hall Renovations	6,500,000	-	6,500,000
Florida Institue of Oceanography Research Vessel	6,210,000	4,778,645	1,431,355
USF Library Remodel	6,173,595	3,472,435	2,701,160
USF Wellness Center Complex	5,965,390	-	5,965,390
Kosove Residence Hall Renovations	4,000,000	-	4,000,000
Subtotal	125,202,032	27,710,985	97,491,047
Other Projects (1)	35,034,768	14,466,947	20,567,821
Total	$ 160,236,800	$ 42,177,932	$ 118,058,868

Note: (1) Individual projects with current balance committed of less than $4 million at June 30, 2017.

14. 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, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2016-17 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 windstorm and flood losses. After the annual aggregate retention, losses in excess of $2 million per occurrence were commercially insured up to $85 million for named windstorm and flood through February 14, 2017, and increased to $92.5 million starting February 15, 2017. For perils other than named windstorm and flood, losses in excess of $2 million per occurrence were commercially insured up to $200 million through February 14, 2017, and increased to $225 million starting February 15, 2017; 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 $200,000 per person, and $300,000 per occurrence as set by Section 768.28(5), 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 3 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-Insured Program.

The University of South Florida Health Sciences Center Self-Insurance Program provides medical professional liability insurance coverage to the University of South Florida Board of Trustees, as well as the faculty, staff, residents and students engaged in medical programs at the University of South Florida.

The Program provides coverage to protected entities in the amount of $200,000 per claim and $300,000 per occurrence pursuant to Section 768.28, Florida Statutes. Additional coverage is provided through the University of South Florida Health Sciences Center Insurance Company, a captive insurance company, with a self-insured retention of $3 million per occurrence 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 $35 million, are insured commercially. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The Program's estimated liability for unpaid claims at fiscal year-end is the result of both management and actuarial analyses and includes an amount for claims that have been incurred but not reported. Changes in the Program's claim liability amount for the fiscal years ended June 30, 2016, and June 30, 2017, are presented in the following table:

Fiscal Year	Claims Liability Beginning of Year	Claims and Changes in Estimates	Claim Payments	Claims Liability End of Year
2015-16	$19,430,248	$ 3,876,519	$ (2,477,045)	$20,829,722
2016-17	20,829,722	7,866,825	(2,279,053)	26,417,494

15. 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.

16. 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 an academic department 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 position are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

Functional Classification	Amount
Instruction	$ 379,326,083
Research	305,407,041
Public Services	6,977,031
Academic Support	144,865,398
Student Services	58,106,553
Institutional Support	94,547,866
Operation and Maintenance of Plant	57,383,029
Scholarships, Fellowships, and Waivers	70,601,198
Depreciation	49,081,846
Auxiliary Enterprises	166,336,813
Loan Operations	70,193
Total Operating Expenses	$ 1,332,703,051

17. 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 Position

	Parking Facility
Assets	
Current Assets	$ 14,886,217
Capital Assets, Net	37,410,611
Other Noncurrent Assets	10,088,979
Total Assets	62,385,807
Deferred Outflows of Resources	658,436
Liabilities	
Current Liabilities	2,743,410
Noncurrent Liabilities	19,703,610
Total Liabilities	22,447,020
Deferred Inflows of Resources	9,873
Net Position	
Net Investment in Capital Assets	17,454,299
Restricted - Expendable	10,870,344
Unrestricted	12,262,707
Total Net Position	$ 40,587,350

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Parking Facility
Operating Revenues	$ 13,829,079
Depreciation Expense	(1,565,413)
Other Operating Expenses	(8,711,848)
Operating Income	3,551,818
Nonoperating Revenues (Expenses):	
Nonoperating Revenue	148,135
Interest Expense	(755,201)
Other Nonoperating Expense	(166,814)
Net Nonoperating Expenses	(773,880)
Increase in Net Position	2,777,938
Net Position, Beginning of Year	37,809,412
Net Position, End of Year	$ 40,587,350

Condensed Statement of Cash Flows

	Parking Facility
Net Cash Provided (Used) by:	
Operating Activities	$ 5,004,728
Capital and Related Financing Activities	(3,254,214)
Investing Activities	(1,432,870)
Net Increase in Cash and Cash Equivalents	317,644
Cash and Cash Equivalents, Beginning of Year	3,815,212
Cash and Cash Equivalents, End of Year	$ 4,132,856

18. Blended Component Unit

The University has one blended component unit as discussed in Note 1. The following financial information is presented net of eliminations for the University's blended component unit:

Condensed Statement of Net Position

	USF Health Sciences Center Self-Insurance Program	University	Eliminations	Total Primary Government
Assets:				
Current Assets	$ 11,985,490	$ 882,729,890	$ -	$ 894,715,380
Capital Assets, Net	28,569	852,312,132	-	852,340,701
Other Noncurrent Assets	47,710,293	23,478,791	-	71,189,084
Total Assets	59,724,352	1,758,520,813	-	1,818,245,165
Deferred Outflows of Resources	-	137,405,152	-	137,405,152
Liabilities:				
Current Liabilities	1,400,419	210,627,925	-	212,028,344
Noncurrent Liabilities	25,085,161	516,659,216	-	541,744,377
Total Liabilities	26,485,580	727,287,141	-	753,772,721
Deferred Inflows of Resources	-	5,671,778	-	5,671,778
Net Position:				
Net Investment in Capital Assets	28,569	743,186,339	-	743,214,908
Restricted - Expendable	33,210,203	206,708,189	-	239,918,392
Unrestricted	-	213,072,518	-	213,072,518
Total Net Position	$ 33,238,772	$ 1,162,967,046	$ -	$ 1,196,205,818

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	USF Health Sciences Center Self-insurance Program	University	Eliminations	Total Primary Government
Operating Revenues	$ 8,350,287	$ 840,278,473	$ (459,978)	$ 848,168,782
Depreciation Expense	(11,210)	(49,070,636)	-	(49,081,846)
Other Operating Expenses	(8,088,196)	(1,275,992,987)	459,978	(1,283,621,205)
Operating Income (Loss)	250,881	(484,785,150)	-	(484,534,269)
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	2,991,959	540,733,936	-	543,725,895
Interest Expense	-	(762,863)	-	(762,863)
Other Nonoperating Expense	-	(31,487,894)	-	(31,487,894)
Net Nonoperating Revenues	2,991,959	508,483,179	-	511,475,138
Other Revenues	-	40,247,474	-	40,247,474
Increase in Net Position	3,242,840	63,945,503	-	67,188,343
Net Position, Beginning of Year	29,995,932	1,099,021,543	-	1,129,017,475
Net Position, End of Year	$ 33,238,772	$ 1,162,967,046	$ -	$ 1,196,205,818

Condensed Statement of Cash Flows

	USF Health Sciences Center Self-Insurance Program	University	Eliminations	Total Primary Government
Net Cash Provided (Used) by:				
Operating Activities	$ 3,210,642	$ (386,285,817)	$ -	$ (383,075,175)
Noncapital Financing Activities	-	470,867,416	-	470,867,416
Capital and Related Financing Activities	-	(37,129,991)	-	(37,129,991)
Investing Activities	(2,393,719)	(17,840,093)	-	(20,233,812)
Net Increase in Cash and Cash Equivalents	816,923	29,611,515	-	30,428,438
Cash and Cash Equivalents, Beginning of Year	3,139,040	38,520,462	-	41,659,502
Cash and Cash Equivalents, End of Year	$ 3,955,963	$ 68,131,977	$ -	$ 72,087,940

19. Discretely Presented 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:

Condensed Statement of Net Position

	Direct-Support Organizations							
	University of South Florida Foundation, Inc.	University of South Florida Alumni Association, Inc.	USF Health Professions Conferencing Corporation	Sun Dome, Inc.	University of South Florida Research Foundation, Inc.	USF Financing Corporation and USF Property Corporation (1)	University Medical Service Association, Inc. (Faculty Practice Plan)	Total
Assets:								
Current Assets	$ 124,643,599	$ 877,629	$ 2,018,673	$ 1,407,566	$ 12,923,067	$ 84,541,091	$ 71,039,136	$ 297,450,761
Capital Assets, Net	13,271,642	-	3,868,253	678,358	42,887,598	241,653,714	6,532,175	308,891,740
Other Noncurrent Assets	466,840,039	6,246,194	227,292	-	31,622,369	36,839,937	9,176,137	550,951,968
Total Assets	604,755,280	7,123,823	6,114,218	2,085,924	87,433,034	363,034,742	86,747,448	1,157,294,469
Deferred Outflows of Resources	-	-	-	-	156,607	-	-	156,607
Liabilities:								
Current Liabilities	4,543,041	2,210,901	2,711,549	1,122,771	11,334,107	20,984,018	14,371,959	57,278,346
Noncurrent Liabilities	5,085,584	-	992,056	-	19,031,607	336,618,342	1,627,753	363,355,342
Total Liabilities	9,628,625	2,210,901	3,703,605	1,122,771	30,365,714	357,602,360	15,999,712	420,633,688
Net Position:								
Net Investment in Capital Assets	7,824,239	-	2,127,301	678,358	23,447,598	-	5,287,076	39,364,572
Restricted	581,606,470	1,208,715	248,037	-	-	-	6,340,000	589,403,222
Unrestricted	5,695,946	3,704,207	35,275	284,795	33,776,329	5,432,382	59,120,660	108,049,594
Total Net Position	$ 595,126,655	$ 4,912,922	$ 2,410,613	$ 963,153	$ 57,223,927	$ 5,432,382	$ 70,747,736	$ 736,817,388

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.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Direct-Support Organizations							
	University of South Florida Foundation, Inc.	**University of South Florida Alumni Association, Inc.**	**USF Health Professions Conferencing Corporation**	**Sun Dome, Inc.**	**University of South Florida Research Foundation, Inc.**	**USF Financing Corporation and USF Property Corporation** (1)	**University Medical Service Association, Inc. (Faculty Practice Plan)**	**Total**
Operating Revenues	$ 55,070,414	$ 2,695,233	$ 15,039,757	$ 6,602,010	$ 12,203,215	$ 54,849,151	$ 263,007,105	$ 409,466,885
Operating Expenses	(63,788,027)	(2,581,147)	(13,065,512)	(6,270,007)	(9,633,109)	(35,018,268)	(264,192,248)	(394,548,318)
Operating Income (Loss)	(8,717,613)	114,086	1,974,245	332,003	2,570,106	19,830,883	(1,185,143)	14,918,567
Net Nonoperating Revenues (Expenses)	63,639,075	755,985	(665,889)	158,433	2,631,784	(17,980,098)	(5,388,520)	43,150,770
Increase (Decrease) in Net Position	54,921,462	870,071	1,308,356	490,436	5,201,890	1,850,785	(6,573,663)	58,069,337
Net Postion, Beginning of Year	540,205,193	4,042,851	1,102,257	472,717	52,022,037	3,581,597	77,321,399	678,748,051
Net Position, End of Year	$ 595,126,655	$ 4,912,922	$ 2,410,613	$ 963,153	$ 57,223,927	$ 5,432,382	$ 70,747,736	$ 736,817,388

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.

20. Subsequent Events

USF Financing Corporation – Component Unit

On September 29, 2017, the USF Financing Corporation, a university direct-support organization, extended the direct bank placement for the Series 2012B Housing Certificates of Participation with outstanding par amount of $59,800,000 for a new term of 10 years. The extended Certificates continue to be held by Wells Fargo Bank, N.A.

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	$ -	$ 230,266,000	$ 230,266,000	0%	$ 463,709,057	49.7%
7/1/2013	-	247,391,000	247,391,000	0%	482,063,719	51.3%
7/1/2015	-	348,214,000	348,214,000	0%	498,680,238	69.8%

Note: (1) The entry-age cost actuarial method was used to calculate the actuarial accrued liability.

Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan

	2016 (1)	**2015** (1)	**2014** (1)	**2013** (1)
University's proportion of the FRS net pension liability	0.763712910%	0.764319997%	0.718476151%	0.558052129%
University's proportionate share of the FRS net pension liability	$ 192,838,109	$ 98,722,179	$ 43,837,611	$ 96,065,609
University's covered payroll (2)	$ 490,228,479	$ 466,345,909	$ 443,554,247	$ 431,524,683
University's proportionate share of the FRS net pension liability as a percentage of its covered payroll	39.34%	21.17%	9.88%	22.26%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	84.88%	92.00%	96.09%	88.54%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, State university system optional retirement program members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

Schedule of University Contributions – Florida Retirement System Pension Plan

	2017 (1)	**2016** (1)	**2015** (1)	**2014** (1)
Contractually required FRS contribution	$ 20,316,942	$ 18,547,490	$ 18,634,771	$ 15,737,677
FRS contributions in relation to the contractually required contribution	20,316,942	18,547,490	18,634,771	15,737,677
FRS contribution deficiency (excess)	$ -	$ -	$ -	$ -
University's covered payroll (2)	$ 512,542,210	$ 490,228,479	$ 466,345,909	$ 443,554,247
FRS contributions as a percentage of covered payroll	3.96%	3.78%	4.00%	3.55%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, State university system optional retirement program members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan

	2016 (1)	**2015** (1)	**2014** (1)	**2013** (1)
University's proportion of the HIS net pension liability	0.726023325%	0.706815530%	0.668866670%	0.662647783%
University's proportionate share of the HIS net pension liability	$ 84,615,011	$ 72,084,066	$ 62,540,666	$ 57,692,202
University's covered payroll (2)	$ 220,376,032	$ 208,898,281	$ 194,843,828	$ 189,351,023
University's proportionate share of the HIS net pension liability as a percentage of its covered payroll	38.40%	34.51%	32.10%	30.47%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	0.97%	0.50%	0.99%	1.78%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.
(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

Schedule of University Contributions – Health Insurance Subsidy Pension Plan

	2017 (1)	**2016** (1)	**2015** (1)	**2014** (1)
Contractually required HIS contribution	$ 3,803,232	$ 3,647,462	$ 2,701,889	$ 2,291,312
HIS contributions in relation to the contractually required HIS contribution	3,803,232	3,647,462	2,701,889	2,291,312
HIS contribution deficiency (excess)	$ -	$ -	$ -	$ -
University's covered payroll (2)	$ 229,109,865	$ 220,376,032	$ 208,898,281	$ 194,843,828
HIS contributions as a percentage of covered payroll	1.66%	1.66%	1.29%	1.18%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.
(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

1. Schedule of Funding Progress – Other Postemployment Benefit Plan

The July 1, 2015 unfunded actuarial accrued liability of $348,214,000 was significantly higher than the July 1, 2013, liability of $247,391,000 as a result of (1) the per capita claims cost assumption increased, (2) retiree contributions were not as high as expected, (3) the healthcare trend rate assumption was revised, and (4) certain demographic assumptions were revised (retirement rates, termination rates, etc.).

2. Schedule of Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan

Changes of Assumptions. The long-term expected rate of return was decreased from 7.65 percent to 7.60 percent, and the active member mortality assumption was updated.

3. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 3.80 percent to 2.85 percent.

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

We have audited, in accordance with the 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, 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, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 15, 2017, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the blended and 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. The financial statements of the University of South Florida Health Sciences Center Self-Insurance Program, a blended component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
December 15, 2017