REPORT NO. 2013-113
MARCH 2013

UNIVERSITY OF SOUTH FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2012

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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(2) Student body president.

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

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

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

UNIVERSITY OF SOUTH FLORIDA
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

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

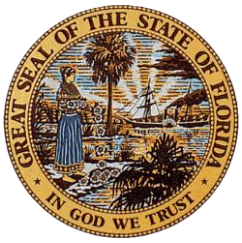
- **Presented the University's basic financial statements in accordance with generally accepted accounting principles;**
- **Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; 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, 2012. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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



AUDITOR GENERAL
STATE OF FLORIDA

G74 Claude Pepper Building
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DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of South Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of South Florida and of its aggregate discretely presented component units as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

Respectfully submitted,

David W. Martin, CPA
February 22, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The University of South Florida System (University) was comprised of three separately accredited institutions: University of South Florida (which includes the main research campus in Tampa, its College of Marine Science in St. Petersburg, and USF Health), USF St. Petersburg, USF Sarasota-Manatee; and a regional campus, USF Polytechnic. Subsequent to June 30, 2012, the USF Polytechnic campus assets were transferred to the newly formed Florida Polytechnic University, and all USF activities conducted in Lakeland, Florida, became a part of the USF Tampa campus. The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2012, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

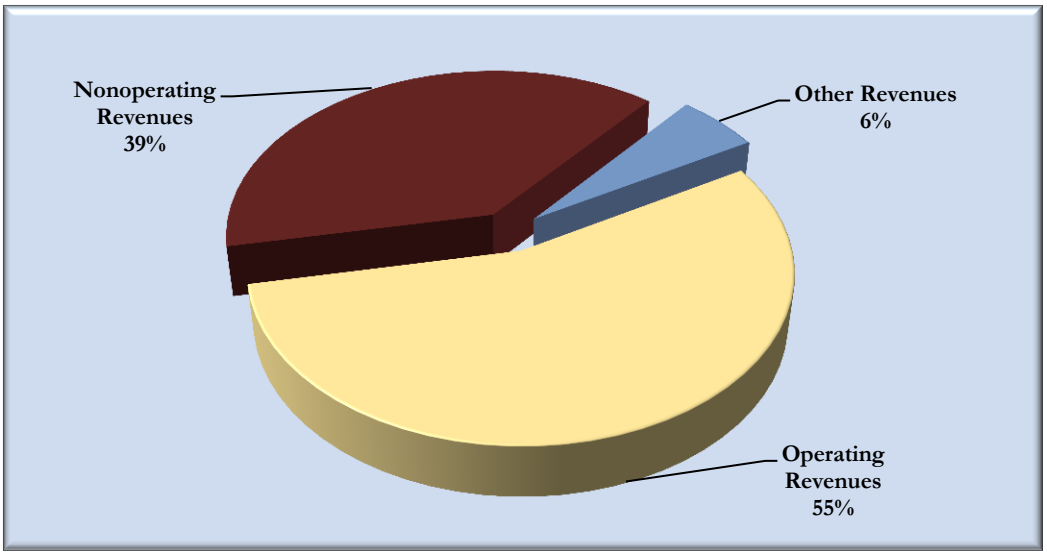
FINANCIAL HIGHLIGHTS

The University's assets totaled $1.6 billion at June 30, 2012. This balance reflects a $49.3 million, or 3 percent decrease from the 2010-11 fiscal year. While assets decreased, liabilities also decreased by $22.6 million, or 6.7 percent, totaling $314.8 million at June 30, 2012, as compared to $337.4 million at June 30, 2011. As a result, the University's net assets decreased by $26.7 million, resulting in a year-end balance of $1.3 billion.

The University's operating revenues totaled $629.6 million for the 2011-12 fiscal year, representing a 3.1 percent increase over the 2010-11 fiscal year due mainly to increases in student tuition and fees and sales and services of auxiliary enterprises. Operating expenses totaled $1.1 billion for the 2011-12 fiscal year, representing an increase of 1.7 percent over the 2010-11 fiscal year due mainly to increases in expenses for compensation and employee benefits and services and supplies offset by decreases in scholarships, fellowships and waivers and self-insurance claims and expenses.

The following chart provides a graphical presentation of University revenues by category for the 2011-12 fiscal year:

Total Revenues



OVERVIEW OF FINANCIAL STATEMENTS

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

- Blended Component Unit:
  - Medical Professional Liability Self-Insurance Program
- Discretely Presented Component Units:
  - University of South Florida Foundation, Inc.
  - University of South Florida Alumni Association, Inc.
  - University of South Florida Medical Services Support Corporation
  - Sun Dome, Inc.
  - University of South Florida Research Foundation, Inc.
  - USF Financing Corporation
  - USF Property Corporation
  - USF Health Professions Conferencing Corporation
  - University Medical Service Association, Inc.

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

THE STATEMENT OF NET ASSETS

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

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

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

	2012	2011
Assets		
Current Assets	$ 600,355	$ 671,362
Capital Assets, Net	915,881	875,705
Other Noncurrent Assets	72,080	90,541
Total Assets	1,588,316	1,637,608
Liabilities		
Current Liabilities	161,961	193,924
Noncurrent Liabilities	152,873	143,479
Total Liabilities	314,834	337,403
Net Assets		
Invested in Capital Assets, Net of Related Debt	830,617	790,512
Restricted	148,257	161,089
Unrestricted	294,608	348,604
Total Net Assets	$ 1,273,482	$ 1,300,205

The University's assets totaled $1.6 billion at June 30, 2012. This balance reflects a $49.3 million, or 3 percent, decrease from the 2010-11 fiscal year. This decrease is attributable to a decrease in net current assets of $71 million, and a decrease in other noncurrent assets of $18.5 million, offset by an increase in net capital assets of $40.2 million.

Current cash and investments for the University decreased a total of $59.7 million between the two fiscal years primarily as a result of reductions in State appropriations and American Recovery and Reinvestment Act (ARRA) funds, and changes in fair market value of investments. Accounts receivable decreased by a total of $1.6 million to remain relatively the same at $63.7 million. In addition, amounts due from the State increased by $6.7 million as a result of the University receiving appropriations from the State for construction. Due from component units decreased $16.3 million primarily due to a decrease in Alec P. Courtelis matching funds.

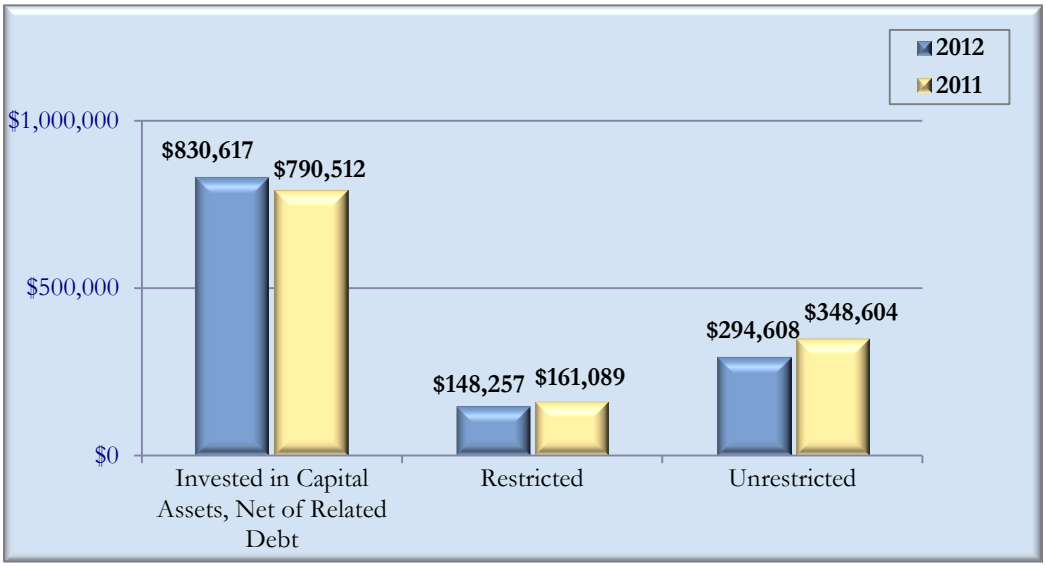
Net capital assets increased by $40.2 million due primarily to the completion of construction projects on three buildings. The decrease of $18.5 million in other noncurrent assets is largely attributable to decreased balances in cash and investments in the construction funds.

Total liabilities decreased by $22.6 million. Major components of this change included a decrease in construction contracts payable of $15.4 million as construction was completed on three buildings, and a decrease in amounts due to component units of $14 million and deferred revenues of $12.9 million due primarily to a decrease in Alec P. Courtelis matching funds and contract and grant funds, offset by an increase on other postemployment benefits (OPEB) of $15.9 million.

Net assets are reported in three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property, plant, and equipment owned by the University. Restricted net assets are another category, which may be further broken down into nonexpendable and expendable. Restricted nonexpendable net assets represent funds that have been donated to a university that are required to be invested in perpetuity. These net assets are primarily maintained within the University of South Florida Foundation, Inc., a component unit of the University. Restricted expendable net assets are available for use by the University, but must be spent for purposes as

determined by donors or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the University for any lawful purpose of the University. The following graph illustrates the comparative change in net assets by category for the 2011-12 and 2010-11 fiscal years.

Net Assets
(In Thousands)



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

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

The following summarizes the University's activity for the 2011-12 and 2010-11 fiscal years:

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years
(In Thousands)

	2011-12	2010-11
Operating Revenues	$ 629,592	$ 610,584
Less, Operating Expenses	1,099,748	1,080,846
Operating Loss	(470,156)	(470,262)
Net Nonoperating Revenues	378,980	473,749
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(91,176)	3,487
Other Revenues, Expenses, Gains, or Losses	64,453	29,630
Net Increase (Decrease) In Net Assets	(26,723)	33,117
Net Assets, Beginning of Year	1,300,205	1,267,088
Net Assets, End of Year	$ 1,273,482	$ 1,300,205

Operating Revenues

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

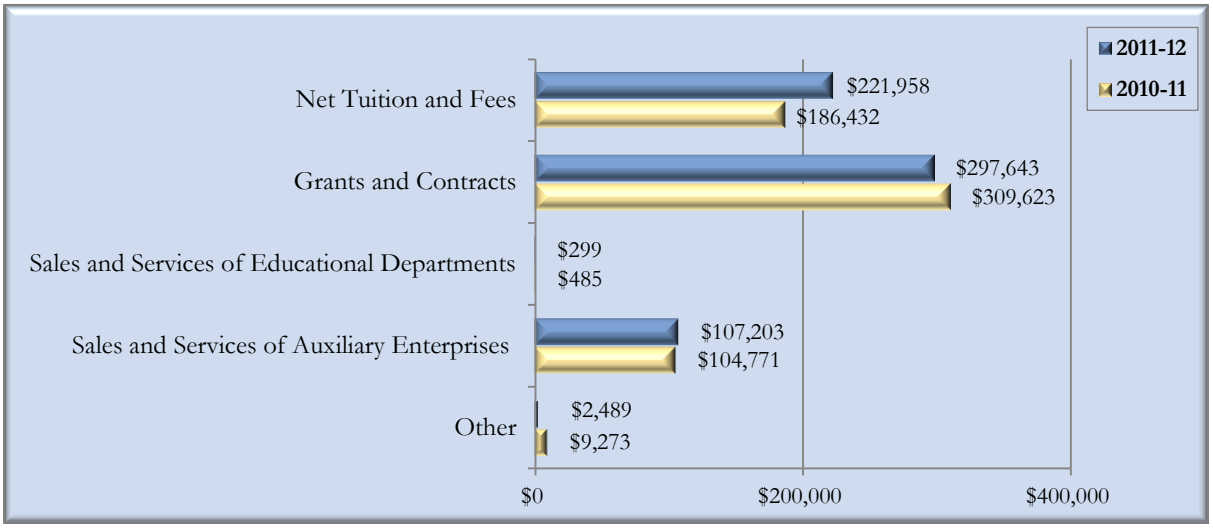
The following summarizes the operating revenues by source that were used to fund operating activities for the 2011-12 and 2010-11 fiscal years:

Operating Revenues
(In Thousands)

	2011-12	2010-11
Net Tuition and Fees	$ 221,958	$ 186,432
Grants and Contracts	297,643	309,623
Sales and Services of Educational Departments	299	485
Sales and Services of Auxiliary Enterprises	107,203	104,771
Other	2,489	9,273
Total Operating Revenues	$ 629,592	$ 610,584

The following chart presents the University's operating revenues for the 2011-12 and 2010-11 fiscal years:

Operating Revenues
(In Thousands)



University operating revenues increased by $19 million. Student tuition and fees increased by $35.5 million due to increases in student fees assessed. Sales and services of auxiliary enterprises increased $2.4 million primarily from an increase in intercollegiate athletic revenue. These increases were offset by a decrease in revenues for Federal, State, and local grants and contracts of $12 million, and a decrease in other revenue of $6.8 million. During the 2010-11 fiscal year, the University received reinsurance moneys for self-insurance claims exceeding the self-insurance limits.

Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the University's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University has chosen to report the expenses in

their natural classification on the statement of revenues, expenses, and changes in net assets and has displayed the functional classification in the notes to financial statements.

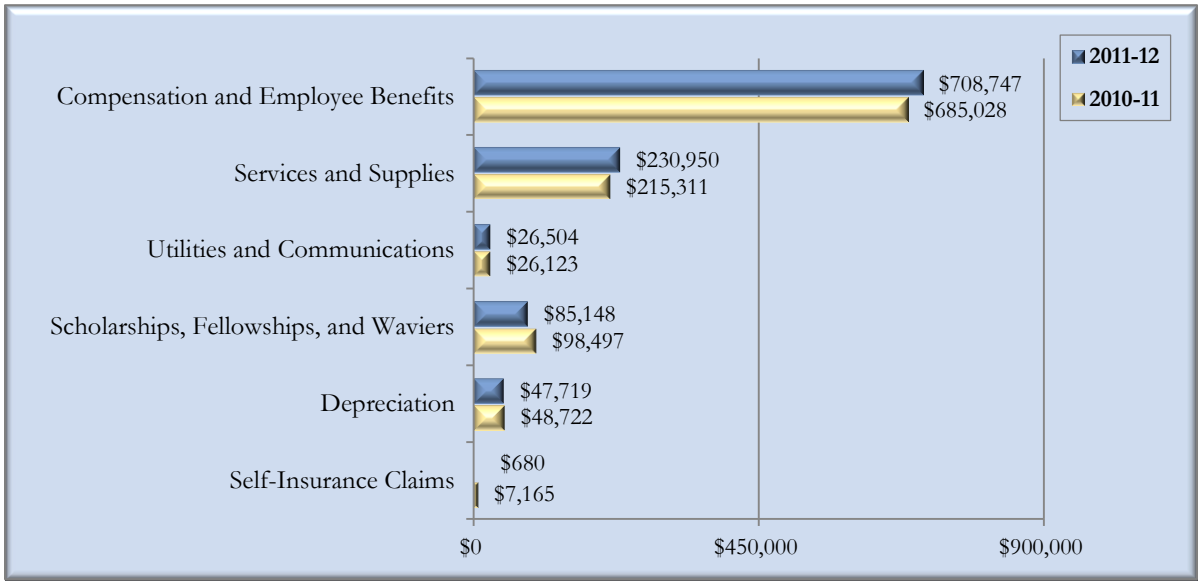
The following summarizes the operating expenses by natural classifications for the 2011-12 and 2010-11 fiscal years:

Operating Expenses
For the Fiscal Years
(In Thousands)

	2011-12	2010-11
Compensation and Employee Benefits	$ 708,747	$ 685,028
Services and Supplies	230,950	215,311
Utilities and Communications	26,504	26,123
Scholarships, Fellowships, and Waivers	85,148	98,497
Depreciation	47,719	48,722
Self-Insurance Claims	680	7,165
Total Operating Expenses	$ 1,099,748	$ 1,080,846

The following chart presents the University's operating expenses for the 2011-12 and 2010-11 fiscal years:

Operating Expenses
(In Thousands)



Total operating expenses increased by $18.9 million to a total of $1.1 billion. Increases of $23.7 million in compensation and employee benefits, $15.6 million in services and supplies, and a slight increase in utilities and communications were offset by a $13.3 million decrease in scholarships, fellowships and waivers, as well as decreases in self-insurance claims of $6.5 million due to decreased claims during the 2011-12 fiscal year and a slight decrease in depreciation expense. The increase to compensation and employees benefits was due primarily to an increase in OPEB expenses of $15.9 million. The increase to services and supplies was due primarily to an increase in supplies and equipment and minor renovations, as a result of a change in the capitalization policy where all items less than $5,000 are now expensed instead of capitalized. The decrease to scholarships, fellowships, and waivers was due to a decrease in Federal and State student financial aid.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2011-12 and 2010-11 fiscal years:

Nonoperating Revenues (Expenses)
(In Thousands)

	2011-12	2010-11
State Noncapital Appropriations	$ 305,549	$ 329,219
Federal and State Student Financial Aid	107,686	112,220
State Appropriated American Recovery and Reinvestment Act Funds		22,332
Noncapital Grants and Donations	20,108	15,984
Investment Income	9,603	21,355
Other Nonoperating Revenues	2,138	2,325
Gain on Disposal of Capital Assets	23	(2,851)
Interest on Capital Asset-Related Debt	(1,669)	(1,899)
Other Nonoperating Expenses	(64,458)	(24,936)
Net Nonoperating Revenues	$ 378,980	$ 473,749

Total net nonoperating revenues decreased by $94.8 million to a total of $379 million. The change is composed of several different factors. State noncapital appropriations decreased by $23.7 million and ARRA funds decreased by $22.3 million due to a decrease in the State's funding in revenue appropriations and the end of the ARRA program. Other factors contributing to the decrease in net nonoperating revenues included a reduction in investment income of $11.8 million due to changes in market conditions and decreased investments, and an increase in other nonoperating expenses of $39.5 million primarily due to a change in capitalization limits and a resulting write-off of the net value of assets that were below the new capitalization limit.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2011-12 and 2010-11 fiscal years:

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

	2011-12	2010-11
State Capital Appropriations	$ 37,009	$ 21,486
Capital Grants, Contracts, Donations, and Fees	27,444	8,144
Total	$ 64,453	$ 29,630

Total other revenues increased by $34.8 million. The increase of $15.5 million in State capital appropriations resulted from new projects being funded by the State in the 2011-12 fiscal year. The increase in capital grants, contracts, donations, and fees of $19.3 million is a result of a donated building and increased building funds from one of the University's component units.

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 2011-12 and 2010-11 fiscal years:

Condensed Statement of Cash Flows
(In Thousands)

	2011-12	2010-11
Cash Provided (Used) by:		
Operating Activities	$ (395,183)	$ (415,706)
Noncapital Financing Activities	377,542	443,691
Capital and Related Financing Activities	(69,573)	(17,600)
Investing Activities	59,774	(8,283)
Net Increase (Decrease) in Cash and Cash Equivalents	(27,440)	2,102
Cash and Cash Equivalents, Beginning of Year	81,880	79,778
Cash and Cash Equivalents, End of Year	$ 54,440	$ 81,880

Major sources of operating activities included net student tuition and fees ($221 million), grants and contracts ($303.7 million), and sales and services of auxiliary enterprises ($106.8 million). Included in the calculation of net cash used for operating activities are two major outflows; payments to employees ($686 million) and payments to suppliers ($256.9 million). The net cash used for operating activities decreased by $20.5 million. The change primarily resulted from an increase in payments to suppliers ($17.5 million); decreases in payments to employees ($6.1 million) and payments to students for scholarships and fellowships ($13.3 million); and decreases in grants and contracts ($13.5 million) offset by increases in revenue from tuition and fees ($34 million); and sales and services of auxiliary enterprises ($2 million). Other major use and source of funds was Federal direct student loans ($259.1 million).

The net cash provided by noncapital financing decreased by $66.1 million from the prior year. The net cash provided by noncapital financing activities consists primarily of $305.5 million of State noncapital appropriations, which had a decrease of $23.7 million from the 2010-11 fiscal year. Contributing to the decrease in noncapital financing activities was a decrease of $22.3 million in ARRA, and a change of $25.7 million in operating subsidies and transfers which was primarily related to amounts due from the State and transfers from component units for salary and services support offset by a decrease of $7.8 million in other nonoperating disbursements, which was primarily related to the change in the capitalization threshold for capital assets.

Cash used by capital and related financing activities increased by $52 million. This resulted from decreases in State capital appropriations of $98.8 million, and capital grants, contracts, donations, and fees of $13.3 million. These amounts were partially offset by an increase in the capital subsidies and transfers of $22 million and a decrease in the purchase or construction of capital assets of $37 million.

Cash used by investing activities increased by $68 million. This was mainly due to a change in investment activities in the net sale of investments of $69.5 million and a decrease in cash from investment income of $1.5 million, as compared to prior year.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2012, the University had $1.4 billion in capital assets, less accumulated depreciation of $524 million, for net capital assets of $915.9 million. Depreciation charges for the current fiscal year totaled $47.7 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30
(In Thousands)

	2012	2011
Land	$ 32,695	$ 32,695
Construction in Progress	48,628	127,324
Buildings	716,630	581,419
Infrastructure and Other Improvements	45,831	43,698
Furniture and Equipment	59,046	72,251
Library Resources	4,999	6,638
Works of Art and Historical Treasures	1,775	3,756
Other Capital Assets	6,277	7,924
Capital Assets, Net	$ 915,881	$ 875,705

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

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2012, were incurred on the following projects: Polytechnic Campus ($24.8 million) and infrastructure improvements for all campuses ($7.5 million). The University's major capital commitments at June 30, 2012, are as follows:

	Amount (In Thousands)
Total Committed	$133,581
Completed to Date	(48,628)
Balance Committed	$ 84,953

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

DEBT ADMINISTRATION

As of June 30, 2012, the University had $34.6 million in outstanding capital improvement debt payable and installment purchase payable, representing a decrease of $2.3 million, or 6.3 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)

	2012	2011
Capital Improvement Debt	$ 33,780	$ 36,424
Installment Purchases	847	532
Total	$ 34,627	$ 36,956

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The State and national economic environment has continued to impact the University. The budget that the Florida Legislature adopted for the 2012-13 fiscal year provided a 14.3 percent decrease for State universities. To partially offset general revenue reductions, the Florida Legislature has authorized tuition increases over the past few years combined with increases to technology and distance learning fees, which provide additional resources to support a balanced budget and expansion of academic programs and services to support students. Approved increases in tuition and fees for the 2012-13 fiscal year will provide additional resources.

Due to the reduction in State appropriations, tuition and fees gradually will become a larger share of the general revenue budget. In addition, the University continues to expect increases in other revenue sources such as auxiliary operations and contract and grant revenue for the foreseeable future.

During the 2012 Legislative session, the Florida Legislature passed Senate Bill 1994 creating the Florida Polytechnic University from the USF Polytechnic Campus of the USF System. The Governor signed and approved Senate Bill 1994 on April 20, 2012. Assets from the former USF Polytechnic will be transferred to the new university and USF management will work with Florida Polytechnic University staff to ensure a smooth transition. Additional information about the transfer of assets to Florida Polytechnic University is presented in the notes to financial statements.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Linda Peterson, University Controller, University of South Florida, 4202 East Fowler Avenue ALN147, Tampa, Florida 33620-5800.

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2012

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 54,408,605	$ 28,665,080
Investments	408,469,770	124,893,567
Accounts Receivable, Net	63,666,146	67,261,772
Loans and Notes Receivable, Net	1,337,143	
Due from State	54,733,840	
Due from University		34,618,449
Due from Component Units	14,012,049	10,052,266
Inventories	1,430,118	746,962
Other Current Assets	2,297,782	22,721,450
Total Current Assets	600,355,453	288,959,546
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	31,445	830,782
Restricted Investments	67,174,088	393,690,641
Loans and Notes Receivable, Net	4,590,988	
Depreciable Capital Assets, Net	831,645,760	374,084,472
Nondepreciable Capital Assets	84,235,243	33,376,930
Other Noncurrent Assets	282,533	14,360,897
Total Noncurrent Assets	987,960,057	816,343,722
TOTAL ASSETS	$ 1,588,315,510	$ 1,105,303,268
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 26,627,374	$ 30,096,336
Construction Contracts Payable	1,282,214	
Salaries and Wages Payable	15,592,635	7,626,828
Deposits Payable	12,398,757	2,596,643
Due to University		14,012,049
Due to Component Units	34,618,449	10,052,266
Deferred Revenue	61,345,092	3,270,159
Long-Term Liabilities - Current Portion:		
Bonds Payable		1,435,000
Certificates of Participation Payable		7,762,660
Capital Improvement Debt Payable	2,748,827	
Loans and Notes Payable		1,356,405
Installment Purchases Payable	422,572	
Capital Leases Payable		2,212,999
Estimated Insurance Claims Payable	1,534,622	
Compensated Absences Payable	5,390,285	
Total Current Liabilities	161,960,827	80,421,345

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2012

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	$	$ 36,445,000
Certificates of Participation Payable		321,101,108
Capital Improvement Debt Payable	31,031,283	
Loans and Notes Payable		41,948,278
Installment Purchases Payable	424,081	
Capital Leases Payable		5,639,054
Estimated Insurance Claims Payable	16,832,705	
Compensated Absences Payable	59,032,684	
Federal Advance Payable	4,624,951	
Other Noncurrent Liabilities		41,434,273
Other Postemployment Benefits Payable	40,927,000	
Total Noncurrent Liabilities	152,872,704	446,567,713
TOTAL LIABILITIES	314,833,531	526,989,058
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	830,617,074	26,073,908
Restricted for Nonexpendable:		
Endowment		460,649,281
Restricted for Expendable:		
Debt Service	2,608,490	
Loans	6,060,666	
Capital Projects	78,087,246	
Other	61,500,941	
Unrestricted	294,607,562	91,591,021
TOTAL NET ASSETS	1,273,481,979	578,314,210
TOTAL LIABILITIES AND NET ASSETS	$ 1,588,315,510	$ 1,105,303,268

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2012

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $89,727,641 ($3,008,313 Pledged for Capital Improvement Parking Revenue Bonds)	$ 221,957,535	$
Federal Grants and Contracts	170,268,582	
State and Local Grants and Contracts	13,723,966	
Nongovernmental Grants and Contracts	113,651,142	41,120,313
Sales and Services of Educational Departments	298,772	
Sales and Services of Auxiliary Enterprises ($12,169,218 Pledged for the Capital Improvement Parking and Bookstore Revenue Bonds)	107,203,007	
Sales and Services of Component Units		245,536,289
Royalities and Licensing Fees		1,942,031
Gifts and Donations		55,381,336
Interest on Loans and Notes Receivable	148,183	
Other Operating Revenues	2,341,254	45,316,425
Total Operating Revenues	629,592,441	389,296,394
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	708,747,021	179,330,221
Services and Supplies	230,949,795	177,827,279
Utilities and Communications	26,504,321	701,704
Scholarships, Fellowships, and Waivers	85,148,239	7,037,204
Depreciation	47,718,575	20,392,253
Self-Insurance Claims	680,606	
Total Operating Expenses	1,099,748,557	385,288,661
Operating Income (Loss)	(470,156,116)	4,007,733
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	305,548,668	
Federal and State Student Financial Aid	107,685,568	
Noncapital Grants and Donations	20,108,349	
Investment Income	9,602,977	3,412,542
Other Nonoperating Revenues	2,137,597	13,505,917
Gain on Disposal of Capital Assets	23,594	
Interest on Capital Asset-Related Debt	(1,668,836)	(24,588,926)
Other Nonoperating Expenses	(64,458,082)	(6,808,803)
Net Nonoperating Revenues (Expenses)	378,979,835	(14,479,270)
Loss Before Other Revenues, Expenses, Gains, or Losses	(91,176,281)	(10,471,537)
State Capital Appropriations	37,009,345	
Capital Grants, Contracts, Donations, and Fees	27,444,410	
Decrease in Net Assets	(26,722,526)	(10,471,537)
Net Assets, Beginning of Year	1,300,204,505	583,904,215
Adjustment to Beginning Net Assets		4,881,532
Net Assets, Beginning of Year, as Restated	1,300,204,505	588,785,747
Net Assets, End of Year	$ 1,273,481,979	$ 578,314,210

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	$ 221,028,762
Grants and Contracts	303,712,367
Sales and Services of Educational Departments	298,150
Sales and Services of Auxiliary Enterprises	106,789,143
Interest on Loans and Notes Receivable	176,464
Payments to Employees	(685,972,938)
Payments to Suppliers for Goods and Services	(256,902,428)
Payments to Students for Scholarships and Fellowships	(85,148,239)
Payments on Self-Insurance Claims and Expenses	(5,665,466)
Loans Issued to Students	(2,363,488)
Collection on Loans to Students	2,876,373
Other Operating Receipts	5,988,071
Net Cash Used by Operating Activities	(395,183,229)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	305,548,668
Federal and State Student Financial Aid	107,685,568
Noncapital Grant, Contracts and Donations	16,005,825
Federal Direct Loan Program Receipts	259,078,057
Federal Direct Loan Program Disbursements	(259,078,057)
Operating Subsidies and Transfers	(15,201,793)
Net Change in Funds Held for Others	2,584,115
Other Nonoperating Receipts	2,266,349
Other Nonoperating Disbursements	(41,346,648)
Net Cash Provided by Noncapital Financing Activities	377,542,084
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	13,814,998
Capital Grants, Contracts, Donations, and Fees	20,386,995
Capital Subsidies and Transfers	15,165,566
Purchase or Construction of Capital Assets	(114,425,601)
Principal Paid on Capital Debt	(2,862,653)
Interest Paid on Capital Debt	(1,652,663)
Net Cash Used by Capital and Related Financing Activities	(69,573,358)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	143,976,160
Purchase of Investments	(96,252,142)
Investment Income	12,050,832
Net Cash Provided by Investing Activities	59,774,850
Net Decrease in Cash and Cash Equivalents	(27,439,653)
Cash and Cash Equivalents, Beginning of Year	81,879,703
Cash and Cash Equivalents, End of Year	$ 54,440,050

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2012

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (470,156,116)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	47,718,575
Change in Assets and Liabilities:	
Receivables, Net	1,935,453
Loans and Notes Receivable, Net	512,885
Inventories	(441,229)
Other Assets	260,832
Accounts Payable	507,951
Salaries and Wages Payable	5,736,853
Deposits Payable	(352,328)
Deferred Revenue	6,849,623
Estimated Insurance Claims Payable	(4,984,860)
Compensated Absences Payable	1,318,132
Other Postemployment Benefits Payable	15,911,000
NET CASH USED BY OPERATING ACTIVITIES	$ (395,183,229)
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES AND NONCASH INVESTING ACTIVITIES	
The fair value of Harbor Hall that was transferred to the University from the University of South Florida Foundation, Inc., was recognized as income on the statement of revenues, expenses, and changes in net assets, but is not a cash transaction for the statement of cash flows.	$ 6,175,046.00
Expenses from the change in the capitalization thresholds for tangible personal property were recognized on the statement of revenues, expenses, and changes in net assets as other operating expenses, but are not cash transactions for the statement of cash flows.	$ (23,207,141)
Unrealized losses on investments were recognized as a decrease to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	$ (2,447,855)

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of thirteen members. The Governor appoints six citizen members and the Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations. The Trustees select the University President. The University President serves as the executive officer and the corporate secretary of the Trustees, and is responsible for administering the policies prescribed by the Trustees.

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

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

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

Direct-Support Organizations. The University's direct-support organizations are provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011. These legally separate, not-for-profit, corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- The University of South Florida Foundation, Inc., accepts, invests, administers and distributes private gifts given for the funding of activities and facilities directly related to the mission, role, and scope of the University of South Florida.
- The University of South Florida Alumni Association, Inc., fosters the spirit of loyalty and fraternity among the graduates, former students, and friends of the University, and promotes their continued active interest in, and on behalf, of the University.
- The University of South Florida Medical Services Support Corporation has been developed to provide certain nonphysician personnel in support of the operation of facilities that the University owns or governs and utilizes for the education, research, and patient care programs of the College of Medicine.
- The Sun Dome, Inc., operates a multi-purpose facility on behalf of the University of South Florida to provide the students, faculty, and staff of the University, as well as the general public, an array of cultural, athletic, and other educational events and activities, including a variety of entertainment events.
- The University of South Florida Research Foundation, Inc., has been established to provide a means by which inventions and works may be developed, protected, applied, and utilized so that the results of University research will be made available to the public and funds will be made available from the commercial application of inventions and works to be dedicated to the benefit of the University and shared with the inventor/author.
- The USF Financing Corporation was organized and operated to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University of South Florida.
- The USF Property Corporation was formed for the primary purpose of acting as lessor in connection with "lease-purchase" financings in support of the activities and educational purposes of the University of South Florida and of the USF Financing Corporation by assisting in acquiring facilities and constructing facilities on the University campus and, in general, furthering the University's education mission.
- The USF Health Professions Conferencing Corporation was established to provide educational, administrative, logistical, and financial services to support the USF Health's Office of Continuing Professional Development (OCPD). The OCPD is committed to sponsoring quality, continuing educational activities to meet the needs of USF faculty, alumni, and healthcare professionals practicing throughout the State, nationally, and internationally.

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

Basis of Presentation. The University's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by 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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

GASB and the Financial Accounting Standards Board (FASB). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

The University's discretely presented component units use the 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.

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

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

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

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

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

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

Capital Assets. University capital assets consist of land; construction in progress; buildings, infrastructure and other improvements; furniture and equipment; library resources; works of art and historical treasures; and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of $5,000 for tangible personal property, and $100,000 for 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
- Other Capital Assets – 3 to 20 years
- Works of Art and Historical Treasures – 5 years

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

The Florida Board of Governors approved Regulation 9.002, *Recording and Marking of Property*, effective July 1, 2011, to revise the capitalization threshold for tangible personal property. The revision was intended to achieve administrative efficiencies and cost savings by increasing the capitalization threshold of tangible personal property from $1,000 to $5,000. Previously capitalized personal property costing less than $5,000 and related accumulated depreciation were written off during the 2011-12 fiscal year. The adjustment column in the capital assets note disclosure shows the change by category resulting from the increase in the threshold.

The change in this threshold resulted in $23,207,141 other nonoperating expenses in the statement of revenues, expenses, and changes in net assets. This is a nonrecurring, noncash item and has been reported in the supplemental disclosure on noncash investing and capital financing activities section of the cash flow statement.

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable, installment purchases payable, estimated insurance claims payable, compensated absences payable, Federal advance payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized premium or discount and deferred losses on refunding. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the debt using the straight-line method.

2. ADJUSTMENTS TO BEGINNING NET ASSETS – COMPONENT UNIT

The beginning net assets of the University of South Florida Research Foundation, Inc., a component unit, were increased by $4,881,532 to reflect an error in reporting interest rate swap agreements as prescribed by GASB Statement No. 53 for fair value hedges.

3. INVESTMENTS

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

The University's investments at June 30, 2012, are reported at fair value, as follows:

Investment Type	Amount
United States Government and Federally-Guaranteed Obligations	$ 11,403,233
Federal Agency Obligations	3,778,948
Bonds and Notes	8,652,099
Stocks and Other Equity Securities	5,739,596
Hedge Funds	30,211,197
Mutual Funds:	
Equities	35,906,315
Bonds	350,966,671
Money Market	28,985,799
Total University Investments	$ 475,643,858

The University's discretely presented component units' investments at June 30, 2012, 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.	USF Health Professions Conferencing Corporation	Total
Bonds and Notes	$	$	$	$	$15,500,379	$	$ 15,500,379
Stocks and Other Equity Securities					3,092,210		3,092,210
Investment Agreements	73,501,951	602,518	2,863,865	(19,801)			76,948,533
Hedge Funds					2,570,936		2,570,936
Mutual Funds:							
Equities	225,172,286	2,179,045	8,513,863				235,865,194
Bonds	111,172,972	1,055,140	13,215,229			1,080,585	126,523,926
Money Market	19,809,557	185,261	998,985	25,254,602	11,834,625		58,083,030
Total Component Units Investments	$429,656,766	$ 4,021,964	$25,591,942	$25,234,801	$32,998,150	$ 1,080,585	$518,584,208

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

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

The following interest rate and credit risks apply to the University, Medical Professional Liability Self-Insurance Program and Research Foundation investments in debt securities, hedge funds, and mutual funds at June 30, 2012:

University Debt Investment Maturity and Quality Ratings

Investment Type	Weighted or Effective Average Maturities	Credit Quality Range		Fair Value
		Moody's	Standard & Poor's	
United States Government and Federally-Guaranteed Obligations (4)	3.46 Years (2)	(1)	(1)	$ 11,403,233
Federal Agency Obligations (4)	3.43 Years (2)	Aaa	AA+	2,736,699
Federal Agency Obligations (4)	7.81 Years (2)	Not Rated	Not Rated	1,042,249
Bonds and Notes (4)	3.82 Years (2)	Aaa-Baa1	AAA-BBB+	8,652,099
Bonds Mutual Funds (5)	2.86 Years (2)	Not Rated	Not Rated	350,966,671
Hedge Funds (5)	Not Applicable	Not Rated	Not Rated	30,211,197
Money Market Mutual Funds (4)	51 Days (3)	Aaa	AAAm	2,895,641
Money Market Mutual Funds (5)	57 Days (3)	Not Rated	Not Rated	26,090,158
Total				$ 433,997,947

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

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University of South Florida Research Foundation, Inc.
Investment Maturity

Investment Type	Investment Maturities (In Years)			
	Fair Value	Less Than 1	1-5	6-10
Mutual Funds:				
Bonds	$13,215,229	$ 315,907	$10,909,468	$ 1,989,854
Money Market	998,985	998,985		
Total	$14,214,214	$1,314,892	$10,909,468	$ 1,989,854

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

Investment Type	Fair Value	AAA	AA	A	Less Than A or Not Rated
Mutual Funds:					
Bonds	$13,215,229	$ 698,462	$ 705,494	$ 1,566,187	$10,245,086
Money Market	998,985	942,471			56,514
Total	$14,214,214	$ 1,640,933	$ 705,494	$ 1,566,187	$10,301,600

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

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University, Medical Professional Liability Self-Insurance Program, and Research Foundation investment policies provide that the maximum amount that may be invested in the securities of an individual issuer not backed by the full faith and credit of the United States Government shall not exceed five percent of the market value of the assets of the investment portfolio, and no single corporate bond issuer shall exceed five percent of the market value of the investment portfolio. Direct investments in securities of the United States Government, Government agencies and State of Florida Investment Pools, or Pooled Funds comprised solely of United States Government Securities are not subject to these restrictions for the University and the Research Foundation. The University did not have any investments in securities of an individual issuer or single corporate bond issue that exceeded five percent of the market value of the investment portfolio at June 30, 2012.

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4. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2012, the University reported the following amounts as accounts receivable:

Description	Amount
Contracts and Grants	$ 38,786,216
Student Tuition and Fees	8,231,725
Other	16,648,205
Total Accounts Receivable	$ 63,666,146

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 $11,753,290 and $2,547,709, respectively, at June 30, 2012.

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

5. DUE FROM STATE

This amount consists of Public Education Capital Outlay, Capital Improvement Fee Trust Fund, and lottery allocations due from the State to the University for construction of University facilities.

6. DUE FROM AND TO COMPONENT UNITS/UNIVERSITY

The $14,012,049 reported as due from component units consists of amounts owed to the University from the University of South Florida Foundation, Inc. ($6,189,142), primarily for the Alec P. Courtelis Facility Matching Gift fund; from the University of South Florida Research Foundation, Inc. ($6,834,699); for grant and special project-related deferred revenue and administrative overhead rebate; from Sun Dome, Inc. ($867,258) for operating expenses; from the University of South Florida Alumni Association, Inc. ($119,499) for payroll and other expenses; and from the University of South Florida Medical Services Support Corporation ($1,451) for grant and operating expenditures.

The $34,618,449 reported as due to component units represents amounts owed by the University to the USF Financing Corporation for construction and financing of buildings and pledged revenues ($33,299,700); to USF Health Professions Conferencing Corporation ($187,946) for conference expenses; and to the University Medical Service Association, Inc. ($1,130,803) for grant and other operating expenses at USF Health.

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7. INVENTORIES

Inventories have been categorized into the following two types:

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

8. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions (2)	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 32,695,490	$	$	$	$ 32,695,490
Works of Art and Historical Treasures	3,703,596		72,500	2,037,855	1,738,241
Other Capital Assets	1,173,750				1,173,750
Construction in Progress	127,323,596		82,117,377	160,813,211	48,627,762
Total Nondepreciable Capital Assets	$ 164,896,432	$	$ 82,189,877	$ 162,851,066	$ 84,235,243
Depreciable Capital Assets:					
Buildings	$ 900,071,957	$	$ 164,401,908	$ 213,082	$ 1,064,260,783
Infrastructure and Other Improvements	79,099,649		6,071,694	5,740	85,165,603
Furniture and Equipment	209,073,193	(71,947,875)	17,495,846	2,287,299	152,333,865
Library Resources	27,594,013		182,411	33,797	27,742,627
Works of Art and Historical Treasures	137,179	(235,763)	233,183		134,599
Other Capital Assets	29,827,560	(3,721,750)	1,042,968	1,597,216	25,551,562
Total Depreciable Capital Assets	1,245,803,551	(75,905,388)	189,428,010	4,137,134	1,355,189,039
Less, Accumulated Depreciation:					
Buildings	318,652,591		29,407,094	428,862	347,630,823
Infrastructure and Other Improvements	35,402,072		3,934,957	2,559	39,334,470
Furniture and Equipment	136,822,155	(50,112,147)	12,319,207	5,741,366	93,287,849
Library Resources	20,956,099		1,886,230	98,586	22,743,743
Works of Art and Historical Treasures	84,437	(4,325)	26,920	9,004	98,028
Other Capital Assets	23,077,691	(2,581,775)	144,167	191,717	20,448,366
Total Accumulated Depreciation	534,995,045	(52,698,247)	47,718,575	6,472,094	523,543,279
Total Depreciable Capital Assets, Net	$ 710,808,506	$ (23,207,141)	$ 141,709,435	$ (2,334,960)	$ 831,645,760

Notes: (1) The adjustment to capital assets is the result of a change in the capitalization threshold for tangible personal property from $1,000 to $5,000, effective July 1, 2011. See discussion related to capital assets in Note 1.
(2) Included in the reductions column is a $2.8 million adjustment, which resulted from implementation of the system asset module.

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9. DEFERRED REVENUE

Deferred revenue includes Alec P. Courtelis Matching Trust Fund appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2012, to spend the funds, and amounts received from contracts and grants, auxiliary prepayments, and student tuition and fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2012, the University reported the following amounts as deferred revenue:

Description	Amount
Contracts and Grants	$ 41,890,788
Capital Appropriations	6,189,142
Auxiliary Prepayments	12,970,564
Student Tuition and Fees	294,598
Total Deferred Revenue	$ 61,345,092

10. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2012, include capital improvement debt payable, installment purchases payable, estimated insurance claims payable, compensated absences payable, Federal advance payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable	$ 36,423,937	$	$ 2,643,827	$ 33,780,110	$ 2,748,827
Installment Purchases Payable	531,527	453,050	137,924	846,653	422,572
Estimated Insurance Claims Payable	23,352,187	680,606	5,665,466	18,367,327	1,534,622
Compensated Absences Payable	63,104,837	6,499,733	5,181,601	64,422,969	5,390,285
Federal Advance Payable	4,801,087		176,136	4,624,951	
Other Postemployment Benefits Payable	25,016,000	19,603,000	3,692,000	40,927,000	
Total Long-Term Liabilities	$ 153,229,575	$ 27,236,389	$ 17,496,954	$ 162,969,010	$ 10,096,306

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2012:

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Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Capital Improvement Debt:				
1994 Bookstore	$ 8,090,000	$ 2,455,554	6.00	2016
2002 Parking	12,700,000	8,083,163	4.00 - 4.75	2023
2004A Parking	16,000,000	9,865,312	3.25 - 5.00	2024
2006A Parking	17,020,000	13,376,081	4.00 - 5.00	2026
Total Capital Improvement Debt	$ 53,810,000	$ 33,780,110		

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

The University has pledged a portion of future traffic and parking fees, and various student fee assessments to repay $33,780,110 in capital improvement (parking and bookstore) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student parking garages and a bookstore facility. The bonds are payable solely from traffic and parking fees, transportation access fees, and bookstore revenue. The University has committed to appropriate each year from the traffic and parking fees, transportation access fees, and bookstore revenue amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is $44,156,571, and principal and interest paid for the current year totaled $4,269,335. During the 2011-12 fiscal year, traffic and parking fees, transportation access fees, and bookstore revenue totaled $10,511,390, $3,008,313, and $1,657,828, respectively.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	$ 2,765,000	$ 1,501,935	$ 4,266,935
2014	2,880,000	1,386,885	4,266,885
2015	3,015,000	1,258,279	4,273,279
2016	3,165,000	1,115,629	4,280,629
2017	2,225,000	954,766	3,179,766
2018-2022	12,595,000	3,302,257	15,897,257
2023-2026	7,305,000	686,820	7,991,820
Subtotal	33,950,000	10,206,571	44,156,571
Net Discounts, Premiums, and Losses on Refundings	(169,890)		(169,890)
Total	$ 33,780,110	$ 10,206,571	$ 43,986,681

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Installment Purchases Payable. The University has entered into several installment purchase agreements for the purchase of equipment reported at $1,382,345. The stated interest rates ranged from 1.5 percent to 4.4 percent. Future minimum payments remaining under installment purchase agreements and the present value of the minimum payments as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Amount
2013	$ 440,573
2014	357,891
2015	75,129
Total Minimum Payments	873,593
Less, Amount Representing Interest	(26,940)
Present Value of Minimum Payments	$ 846,653

Federal Advance Payable. Represents the University's liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan program. This amount will ultimately be returned to the Federal government should the University cease making Federal Perkins Loans or has excess cash in the loan program. Federal capital contributions held by the University totaled $4,624,951.

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, 2012, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled $64,422,969. The current portion of the compensated absences liability, $5,390,285, 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.

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

Plan Description. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer, defined-benefit plan (Plan). The University subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as

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soon as they are eligible. A stand-alone report is not issued and the Plan information is not included in the report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 978 retirees received postemployment healthcare benefits. The University provided required contributions of $3,692,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled $5,330,000.

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

Description	Amount
Normal Cost (Service Cost for One Year)	$ 11,044,000
Amortization of Unfunded Actuarial Accrued Liability	7,676,000
Interest on Normal Cost and Amortization	749,000
Annual Required Contribution	19,469,000
Interest on Net OPEB Obligation	1,001,000
Adjustment to Annual Required Contribution	(867,000)
Annual OPEB Cost (Expense)	19,603,000
Contribution Toward the OPEB Cost	(3,692,000)
Increase in Net OPEB Obligation	15,911,000
Net OPEB Obligation, Beginning of Year	25,016,000
Net OPEB Obligation, End of Year	$ 40,927,000

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2012, and for the two preceding fiscal years, were as follows:

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Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	$ 12,249,000	28.2%	$ 16,941,000
2010-11	11,489,000	29.7%	25,016,000
2011-12	19,603,000	18.8%	40,927,000

Funded Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $230,266,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $230,266,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $463,709,057 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 49.7 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The University's OPEB actuarial valuation as of July 1, 2011, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2012, and the University's 2011-12 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Initial healthcare cost trend rates were 7.24 percent, 8.38 percent and 8.57 percent for the first three years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 5.81 percent, 3.11 percent, and 8.42 percent for the first three years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates are both 6.5 percent in the fourth year grading identically to 5 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 25 years.

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11. CERTIFICATES OF PARTICIPATION – COMPONENT UNIT

Certificates of Participation Series 2003A. The Series 2003A Certificates were issued pursuant to an amended and supplemented trust indenture, dated March 1, 2003, by and between the University of South Florida Foundation, Inc., (Foundation), and a trustee. The $13,200,000 Certificates were issued to finance the construction of an athletic training facility located on the University's Tampa campus pursuant to a ground lease between the University and the Foundation. The Certificates were issued as variable rate debt secured by a direct-pay letter of credit issued by the trustee. Due to the recent downgrades of the trustee's short-term credit rating, the Certificates were remarketed at interest rates reflective of the credit quality of the trustee, causing increased interest costs. On March 15, 2011, the trustee agreed to convert the interest rate from variable to fixed and purchase the Certificates for their own account. Simultaneously with the conversion to a fixed rate, the USF Financing Corporation accepted an assignment from the Foundation of its rights, title, interest, and obligations related to the $9,905,000 outstanding Series 2003A Certificates. The Series 2003A Certificates bear a fixed interest rate 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 2005A and 2005B. On May 25, 2005, the USF Financing Corporation issued $47,995,000 Certificates of Participation Series 2005A and $92,250,000 Certificates of Participation Series 2005B. The proceeds derived from the issuance of the certificates were used to: (1) finance the acquisition and construction of a housing and parking facility at the University of South Florida St. Petersburg campus; (2) pay certain expenses related to the issuance and sale of the 2005 Certificates including the financial guaranty insurance policy premium, and (3) redeem the outstanding principal for the University's prior housing facilities. The Series 2005A fixed rate Certificates bear a true interest cost to maturity of 4.196 percent. The Series 2005B variable rate Certificates were converted from auction rate securities to variable rate demand bonds with weekly rate periods in March 2008. The Series 2005A Certificates mature in 2023 and the Series 2005B Certificates mature in 2035.

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

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

Certificates of Participation Series 2005C. On January 19, 2006, the USF Financing Corporation issued $41,610,000 Certificates of Participation Series 2005C. The proceeds derived from the issuance of the certificates were used to: (1) finance the construction of a new Marshall Center, a student center and (2) pay certain expenses related to the issuance and sale of the Series 2005C Certificates including the financial guaranty insurance policy premium. The Series 2005C fixed rate Certificates bear a true interest cost to maturity of 4.557 percent and mature in 2036.

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

Certificates of Participation Series 2006A. On March 16, 2006, the USF Financing Corporation issued $47,315,000 Certificates of Participation Series 2006A. The proceeds derived from the issuance of the certificates were used to (1) finance the acquisition and construction of two fully-equipped medical office buildings consisting of the North Clinic Facility and the South Clinic Facility and (2) pay certain expenses related to the issuance and sale of the Series 2006A Certificates. The Series 2006A variable rate Certificates have been hedged to limit the effect of changes in interest rates and bear a true interest cost to maturity of 3.578 percent. The Series 2006A Certificates mature in 2036.

The Series 2006A Certificates were issued pursuant to a Master Trust Agreement, dated as of March 1, 2006, as supplemented by the Series 2006 Supplemental Trust Agreement, dated as of March 1, 2006, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. For the Series 2006A Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated as of March 1, 2006, with the University Board of Trustees whereby the University has leased to the USF Property Corporation interest in the lands on which the North Clinic Facility and the South Clinic Facility were constructed. With respect to the South Clinic Facility site, the University Board of Trustees possesses sublease interest in the site pursuant to a sublease, dated March 15, 2006, between the University and Florida Health Science Center, Inc., d/b/a Tampa General Hospital, whereby Tampa General Hospital has subleased to the

University the land on which the South Clinic Facility was constructed. The USF Financing Corporation has subleased both the North Clinic Facility and the South Clinic Facility to the University of South Florida Medical Services Support Corporation (MSSC), a direct-support organization of the University, pursuant to individual office building lease agreements, each dated March 1, 2006.

The University Medical Service Association, Inc. (UMSA), a direct-support organization of the University, has guaranteed all payments due from MSSC to the USF Financing Corporation under both Facility Lease Agreements pursuant to a Lease Guaranty, dated March 1, 2006, between UMSA and the USF Financing Corporation. The USF Financing Corporation's right to receive all payments received from MSSC under the Facility Lease Agreements and any payments required to be made by UMSA under the Lease Guaranty are collaterally assigned to the Trustee pursuant to one or more separate assignments. All of the rights, title, and interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and relet properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

To provide credit enhancement for the Series 2006A Certificates, a counterparty has issued and delivered to the Trustee two separate irrevocable direct-pay Letters of Credit pursuant to a Reimbursement Agreement by and among the counterparty, the USF Financing Corporation and the USF Property Corporation. Under each of the Letters of Credit, the Trustee will be entitled to draw up to an amount sufficient to pay 100 percent of the principal amount of the Series 2006A Certificates, plus interest, as applicable. The USF Financing Corporation and the USF Property Corporation agree in the Reimbursement Agreement to reimburse the counterparty for drawings made on either of the Letters of Credit and to make certain other payments to the counterparty. The Letters of Credit expire on March 17, 2014.

Certificates of Participation Series 2007 (Housing). On September 25, 2007, the USF Financing Corporation issued $73,700,000 Certificates of Participation Series 2007 (Housing). The proceeds derived from the issuance of the certificates were used to: (1) finance the costs of acquisition, construction, and installation of the 2007 Housing Project; (2) fund a Capitalized Interest Account; and (3) pay certain expenses related to the issuance and sale of the 2007 Certificates including the financial guaranty insurance policy premium. The Series 2007 variable rate Certificates (Housing) have been hedged to limit the effect of changes in interest rates and bear a true interest cost to maturity of 3.552 percent. The Series 2007 Certificates (Housing) mature in 2037.

The Series 2007 Certificates (Housing) were issued pursuant to a Master Trust Agreement, dated May 1, 2005, as supplemented by the Series 2007 Supplemental Trust Agreement, dated as of September 1, 2007, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. For the Series 2007 Certificates (Housing), the USF Property Corporation has entered into a Ground Lease Agreement, dated as of September 1, 2007, with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the Magnolia Residence Hall is located. All of the rights, title, and interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and relet properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee. The payment of

regularly scheduled principal and interest on the Series 2007 Certificates are secured pursuant to a Letter of Credit issued by a counterparty.

Certificates of Participation Series 2007 (Health). On November 19, 2007, the USF Financing Corporation issued $22,830,000 Certificates of Participation Series 2007 (Health). The proceeds derived from the issuance of the certificates were used to: (1) provide funds for the purpose of financing the acquisition, construction, installation and equipping of a medical office building located on the University's Tampa Campus; (2) fund a Capitalized Interest Account; and (3) pay certain expenses related to the issuance and sale of the 2007 Certificates. The Series 2007 variable rate Certificates (Health) have been hedged to limit the effect of changes in interest rates, and bear a true interest cost to maturity of 3.397 percent. The Series 2007 Certificates (Health) mature in 2037.

The Series 2007 Certificates (Health) were issued pursuant to a Master Trust Agreement, dated March 1, 2006, as supplemented by the Series 2007 Supplemental Trust Agreement, dated as of November 1, 2007, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. For the Series 2007 Certificates (Health), the USF Property Corporation has entered into a Ground Lease Agreement dated as of November 19, 2007, with the University Board of Trustees whereby the University has leased to the USF Property Corporation interest in the lands on which the Medical Office Building is constructed. The USF Financing Corporation has subleased the Medical Office Building to MSSC pursuant to a facility lease agreement, dated November 1, 2007.

To provide credit enhancement for the Series 2007 Certificates (Health), a counterparty has issued and delivered to the Trustee an irrevocable direct-pay Letter of Credit pursuant to a Reimbursement Agreement by and among the counterparty, the USF Financing Corporation and the USF Property Corporation. Under the Letter of Credit, the Trustee is entitled to draw up to an amount sufficient to pay 100 percent of the principal amount of the Series 2007 Certificates, plus interest, as applicable. The USF Financing Corporation and the USF Property Corporation agree in the Letter of Credit Agreement to reimburse the counterparty for drawings made under the Letter of Credit and to make certain other payments to the counterparty. The Letter of Credit expires on March 17, 2014.

Certificates of Participation Series 2010A and 2010B. On December 14, 2010, the USF Financing Corporation issued $2,860,000 Certificates of Participation Series 2010A (Tax-Exempt) and $15,140,000 Certificates of Participation Series 2010B (Build America Bonds). The proceeds of the Series 2010A and 2010B Certificates were used to finance the acquisition, construction, and installation of a mixed-use facility that includes a student center and a student housing facility on the University's St. Petersburg Campus, funding capitalized interest accounts and paying certain expenses related to the issuance and sale of the Series 2010A and 2010B Certificates. The Series 2010A Certificates interest rates range from 3 to 5 percent. As the Series 2010B Certificates were issued under the Build America Bonds program, the net interest cost is equal to 65 percent of the gross interest rate which is 8.348 and 8.548 percent. The Series 2010A Certificates mature in 2020 and the Series 2010B Certificates mature from 2021 to 2040.

The Series 2010A and 2010B Certificates were issued pursuant to a Master Trust Agreement dated as of May 1, 2005, as supplemented by the Series 2010 Supplemental Trust Agreement, dated December 1, 2010, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee.

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For the Series 2010A and 2010B Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated as of December 1, 2010, with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the Series 2010 Projects are located. All of the rights, title, and interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and relet property; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

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

Principal and Interest Payments. Principal and interest payment requirements on all of the Certificates of Participation outstanding as of June 30, 2012 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	$ 7,865,000	$ 13,241,782	$ 21,106,782
2014	8,515,000	12,914,063	21,429,063
2015	8,870,000	12,587,207	21,457,207
2016	9,200,000	12,232,995	21,432,995
2017	9,600,000	11,846,348	21,446,348
2018-2022	54,450,000	53,037,341	107,487,341
2023-2027	62,215,000	41,017,477	103,232,477
2028-2032	74,605,000	27,507,255	102,112,255
2033-2037	82,760,000	11,108,926	93,868,926
2038-2040	9,915,000	880,935	10,795,935
Subtotal	327,995,000	196,374,329	524,369,329
Add, Net Premiums and Discounts	868,768		868,768
Total	$ 328,863,768	$ 196,374,329	$ 525,238,097

Interest Rate Swap Agreements. To reduce the USF Financing Corporation's risk of interest rate changes with respect to the Series 2005B Certificates, on May 18, 2005, the USF Financing Corporation entered into an interest rate swap agreement with a counterparty with a total notional amount of $80,000,000. The effect of the agreement is to limit the interest expense to 3.2195 percent on $80,000,000 of the total $92,250,000 principal in variable rate Series 2005B Certificates. The interest rate swap agreement expires July 1, 2015.

On March 8, 2006, the USF Financing Corporation entered into an interest rate swap agreement with a counterparty to limit the effects of changes in interest rates on the Series 2006A Certificates. The initial notional amount of the interest rate swap agreement is $47,315,000. The effect of the agreement is to limit the interest

expense to 3.578 percent on the total $47,315,000 principal in variable rate Series 2006A Certificates. The interest rate swap agreement expires July 1, 2016.

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

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

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

Due to the downgrade of the USF Financing Corporation's municipal bond insurers below the required credit rating, the USF Financing Corporation was required to post collateral in the form of cash or securities for the unrealized loss position in excess of the minimum threshold level. As of June 30, 2012, the posted collateral was $18,300,000.

The fair value of the interest rate swap agreements is the estimated amount the USF Financing Corporation would receive or pay to terminate the agreement at the reporting date, taking into account the current interest rates and the current creditworthiness of the counterparties. The USF Financing Corporation interest rate swap agreements had a cumulative negative fair value of $36,066,973 which represents the amount to be paid to terminate the agreements at the reporting date.

As of June 30, 2012, 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 interest rate swap agreements become positive, the USF Financing Corporation would be exposed to credit risk in the amount of the derivative's fair value.

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

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

The USF Financing Corporation is exposed to the risk (termination risk) that the interest rate swap agreements could be terminated by the counterparty. The USF Financing Corporation mitigates this risk with interest rate swap agreements that restrict termination by the counterparty and, if terminated, posted collateral assets would provide a liquid offset. The USF Financing Corporation has an option to terminate the 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.

12. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the University are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Florida Retirement System Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight 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. Members of both Plans 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

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retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in 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.

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 this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Senior Management Service	3.00	6.27
Florida Retirement System, Special Risk	3.00	14.10
Florida Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include .03 percent for administrative costs of the Investment Plan.

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

The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled $14,789,117, $16,446,406, and $11,357,205, respectively, which were equal to the required contributions for each fiscal year.

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There were 1,041 University participants in the Investment Plan during the 2011-12 fiscal year. The University's contributions including employee contributions to the Investment Plan totaled $3,207,574, which was equal to the required contribution for the 2011-12 fiscal year.

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

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes, on behalf of the participant, 7.92 percent of the participant's salary, less a small amount used to cover administrative costs 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.

There were 3,497 University participants during the 2011-12 fiscal year. The University's contributions to the Program totaled $18,696,222 and employee contributions totaled $15,689,611 for the 2011-12 fiscal year.

13. CONSTRUCTION COMMITMENTS

The University's construction commitments at June 30, 2012, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
Polytechnic Campus	$ 85,875,699	$ 24,818,417	$ 61,057,282
Infrastructure (PECO)	16,483,521	7,543,715	8,939,806
Subtotal	102,359,220	32,362,132	69,997,088
Other Projects (1)	31,222,271	16,265,630	14,956,641
Total	$ 133,581,491	$ 48,627,762	$ 84,953,729

Note: (1) Individual projects with current balance commited of less than $5 million at June 30, 2012.

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As of July 1, 2012, all future commitments related to the former USF Polytechnic campus will become the obligation of the newly formed Florida Polytechnic University. As of June 30, 2012, $24.8 million had been completed by USF. More information regarding this transaction is provided in the subsequent events note.

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 2011-12 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 $61 million for named windstorm and flood losses through February 14, 2012, and decreased to $50 million starting February 15, 2012. For perils other than named windstorm and flood, losses in excess of $2 million per occurrence were commercially insured up to $200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to $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 three fiscal years.

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

University Self-Insurance Program

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

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The Program's retained risks range from payments on tort claims limited to $100,000 per claim and $200,000 per occurrence before October 1, 2011, and $200,000 per claim and $300,000 per occurrence, effective for claims arising on or after October 1, 2011 to $3 million per occurrence for professional liability up to an aggregate of $10 million for all payments made on claims arising during the fiscal year. Losses in excess of the individual and aggregate amounts, up to $15 million, are insured commercially. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The Program's estimated liability for unpaid claims at fiscal year-end is the result of both management and actuarial analyses and includes an amount for claims that have been incurred but not reported. Changes in the Program's claim liability amount for the fiscal years ended June 30, 2011, and June 30, 2012, are presented in the following table:

Fiscal Year	Claims Liabilities Beginning of Year	Claims and Changes in Estimates	Claim Payments	Claims Liabilities End of Year
2010-11	$18,170,169	$7,165,251	$(1,983,233)	$23,352,187
2011-12	23,352,187	680,606	(5,665,466)	18,367,327

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 academic departments for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

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Functional Classification	Amount
Instruction	$ 301,484,973
Research	252,379,059
Public Services	6,193,729
Academic Support	100,908,278
Student Services	43,917,356
Institutional Support	72,257,375
Operation and Maintenance of Plant	57,745,561
Scholarships, Fellowships, and Waivers	85,148,239
Auxiliary Enterprises	131,900,022
Depreciation	47,718,575
Loan Operations	95,390
Total Operating Expenses	$ 1,099,748,557

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, and liabilities are required to be accounted for separately. The following financial information for the University's Parking facilities represents identifiable activities for which one or more bonds are outstanding:

Condensed Statement of Net Assets

	Parking Facility Capital Improvement Debt
Assets	
Current Assets	$ 9,858,326
Capital Assets, Net	44,656,321
Other Noncurrent Assets	8,143,397
Total Assets	62,658,044
Liabilities	
Current Liabilities	2,253,841
Noncurrent Liabilities	29,586,331
Total Liabilities	31,840,172
Net Assets	
Invested in Capital Assets, Net of Related Debt	13,614,297
Restricted - Expendable	10,066,049
Unrestricted	7,137,526
Total Net Assets	$ 30,817,872

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

	Parking Facility Capital Improvement Debt
Operating Revenues	$ 13,540,936
Depreciation Expense	(1,593,496)
Other Operating Expenses	(9,057,050)
Operating Income	2,890,390
Nonoperating Revenues (Expenses):	
Nonoperating Revenue	8,640
Interest Expense	(1,441,897)
Other Nonoperating Expense	(530,320)
Net Nonoperating Expenses	(1,963,577)
Increase in Net Assets	926,813
Net Assets, Beginning of Year	29,891,059
Net Assets, End of Year	$ 30,817,872

Condensed Statement of Cash Flows

	Parking Facility Capital Improvement Debt
Net Cash Provided (Used) by:	
Operating Activities	$ 4,409,160
Capital and Related Financing Activities	(4,214,251)
Investing Activities	(160,855)
Net Increase in Cash and Cash Equivalents	34,054
Cash and Cash Equivalents, Beginning of Year	2,885,584
Cash and Cash Equivalents, End of Year	$ 2,919,638

18. DEFICIT NET ASSETS – COMPONENT UNITS

The University's direct-support organization, University of South Florida Medical Services Support Corporation (MSSC), had a deficit net asset balance of $2,920,388 at June 30, 2012. This deficit balance can be attributed primarily to an accrued liability of $6,964,386 related to an interest rate swap agreement due to USF Financing Corporation (USFFC), a University direct-support organization and the cumulative amount of revenues earned and expenses incurred by USFFC on MSSC's behalf (see note 11).

The University Medical Service Association, Inc. (UMSA), a component unit of the University, has guaranteed all payments due from MSSC to the USFFC under three facility lease agreements pursuant to a Lease Guaranty (two of which are dated March 1, 2006, and one which is dated November 19, 2007) between UMSA and the USFFC. These agreements would guarantee any actual liability resulting from the interest rate swap agreements.

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The University's direct-support organization, USFFC, had a deficit unrestricted net asset balance of $12,267 at June 30, 2012. This deficit balance can be attributed primarily to USFFC's equity investment in INTO USF, Inc. (INTO USF), a Florida for-profit corporation. On January 17, 2010, USFFC entered into a subscription agreement with INTO USF, whereby USFFC subscribed for and purchased shares of common stock of INTO USF. USFFC funded its subscription to 50 percent of the issued shares of INTO USF on March 15, 2010.

In the subscription agreement, USFFC represents and warrants that its acquisition of the shares was for investment purposes only and not for resale or distribution. In accordance with Accounting Standards Committee No. 323, *Investment – Equity Method and Joint Ventures*, USFFC has accounted for this investment under the equity method of accounting, given that it owns 50 percent of INTO USF's outstanding shares and does not have control over INTO USF. Thus, USFFC recognized 50 percent of INTO USF's operating losses as of June 30, 2012, which were equal to $269,801.

19. 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:

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	Direct-Support Organizations								Faculty Practice Plan	Component Units Total
	University of South Florida Foundation, Inc.	University of South Florida Alumni Association, Inc.	USF Health Professions Conferencing Corporation	University of South Florida Medical Services Support Corporation	Sun Dome, Inc.	University of South Florida Research Foundation, Inc.	USF Financing Corporation and USF Property Corporation (1)	Total Direct-Support Organization	University Medical Service Association, Inc.	
Condensed Statement of Net Assets										
Assets:										
Current Assets	$ 121,253,277	$ 780,456	$ 3,442,119	$ 7,832,921	$ 1,762,500	$ 14,872,800	$ 60,985,536	$ 210,929,609	$ 78,029,937	$ 288,959,546
Capital Assets, Net	3,897,681		12,212,951	4,022,324	1,575,631	52,733,275	331,167,600	405,609,462	1,851,940	407,461,402
Other Noncurrent Assets	351,629,024	3,419,583	531,010	6,000		28,061,902	25,234,801	408,882,320		408,882,320
Total Assets	476,779,982	4,200,039	16,186,080	11,861,245	3,338,131	95,667,977	417,387,937	1,025,421,391	79,881,877	1,105,303,268
Liabilities:										
Current Liabilities	15,533,772	1,505,845	5,867,776	14,167,826	2,296,473	12,407,573	19,194,523	70,973,788	9,447,557	80,421,345
Noncurrent Liabilities			5,025,247	613,807	910,678	41,812,300	398,205,681	446,567,713		446,567,713
Total Liabilities	15,533,772	1,505,845	10,893,023	14,781,633	3,207,151	54,219,873	417,400,204	517,541,501	9,447,557	526,989,058
Net Assets:										
Invested in Capital Assets, Net of Related Debt	3,897,682		3,748,560	1,062,718	514,953	14,998,055		24,221,968	1,851,940	26,073,908
Restricted	458,777,487	528,715	1,343,079					460,649,281		460,649,281
Unrestricted	(1,428,959)	2,165,479	201,418	(3,983,106)	(383,973)	26,450,049	(12,267)	23,008,641	68,582,380	91,591,021
Total Net Assets	$ 461,246,210	$ 2,694,194	$ 5,293,057	$ (2,920,388)	$ 130,980	$ 41,448,104	$ (12,267)	$ 507,879,890	$ 70,434,320	$ 578,314,210
Condensed Statement of Revenues, Expenses, and Changes in Net Assets										
Operating Revenues	$ 58,832,616	$ 2,326,660	$ 15,899,829	$ 58,934,530	$ 894,617	$ 14,103,935	$ 47,268,583	$ 198,260,770	$ 191,035,624	$ 389,296,394
Operating Expenses	(74,458,307)	(2,185,830)	(20,293,134)	(58,785,342)	(1,472,537)	(8,791,357)	(30,555,249)	(196,541,756)	(188,746,905)	(385,288,661)
Operating Income (Loss)	(15,625,691)	140,830	(4,393,305)	149,188	(577,920)	5,312,578	16,713,334	1,719,014	2,288,719	4,007,733
Net Nonoperating Revenues (Expenses)	3,652,519	(63,222)	2,990,593	991,512	(120,843)	(2,132,797)	(16,217,394)	(10,899,632)	(3,579,638)	(14,479,270)
Increase (Decrease) in Net Assets	(11,973,172)	77,608	(1,402,712)	1,140,700	(698,763)	3,179,781	495,940	(9,180,618)	(1,290,919)	(10,471,537)
Net Assets, Beginning of Year	473,219,382	2,616,586	6,695,769	(4,061,088)	829,743	33,386,791	(508,207)	512,178,976	71,725,239	583,904,215
Adjustment to Beginning Net Assets (1)						4,881,532		4,881,532		4,881,532
Net Assets, Beginning of Year, as Restated	473,219,382	2,616,586	6,695,769	(4,061,088)	829,743	38,268,323	(508,207)	517,060,508	71,725,239	588,785,747
Net Assets, End of Year	$ 461,246,210	$ 2,694,194	$ 5,293,057	$ (2,920,388)	$ 130,980	$ 41,448,104	$ (12,267)	$ 507,879,890	$ 70,434,320	$ 578,314,210

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

20. SUBSEQUENT EVENTS

USF Polytechnic: On April 20, 2012, Sections 1004.345 and 1000.21, Florida Statutes, were revised to: (1) eliminate the University of South Florida Polytechnic University (USFP) – system campus; (2) create the Florida Polytechnic University (FPU); and (3) require the transfer of all assets and liabilities of the former USFP from the University of South Florida to FPU. These assets and liabilities include all real and personal property, licenses and associated revenues, existing contracts, unexpended balances, appropriations, allocations, funds, mutually agreed-upon obligations, and responsibilities relating to USFP. Pursuant to Section 1004.346, Florida Statutes, the transfer also includes the Florida Industrial and Phosphate Research Institute, which was part of USFP. The transfer of assets and liabilities is to occur as agreed upon by the Board of Trustees of the University of South Florida and the Board of Trustees of FPU. The University of South Florida is also required to teach-out former USFP students.

On October 30, 2012, a cash transfer of $9.5 million in operating funds was made to FPU. In addition, $18.8 million in construction funding was transferred.

The impact of the transfers out of assets and funding will significantly impact the 2012-13 fiscal year financial statements. The University of South Florida will incur a transfer out expense for the 2012-13 fiscal year when the net book value of the capital assets is posted. The approximate net book value of capital assets being transferred is $55.8 million from USFP and $1.5 million from the Florida Industrial and Phosphate Research Institute program. The total anticipated expense impact to the University of South Florida for capital projects will be approximately $57.3 million.

Component Units: On September 24, 2012, the Boards of Directors of the USF Financing Corporation and the USF Property Corporation authorized the refunding of the Series 2005B and Series 2007 (Housing) Certificates of Participation (see note 11) with the issuance of Series 2012A and Series 2012B Refunding Certificates of Participation (Refunding Certificates), respectively. On October 1, 2012, the Series 2005B and 2007 (Housing) Certificates were redeemed.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	$	$ 109,667,000	$ 109,667,000	0%	$ 393,844,424	27.8%
7/1/2009		166,372,000	166,372,000	0%	408,028,356	40.8%
7/1/2011		230,266,000	230,266,000	0%	463,709,057	49.7%

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

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

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2011, unfunded actuarial accrued liability of $230,266,000 was significantly higher than the July 1, 2009, liability of $166,372,000 primarily as a result of changes in the methodology used by the actuary to calculate this liability. The most significant modifications were due to changes in the long-term trend model, an increase in the coverage election assumption, and the passage of the Patient Protection and Affordable Care Act.

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House of Representatives, and the
Legislative Auditing Committee

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

We have audited the financial statements of the University of South Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, which collectively comprise the University's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

David W. Martin, CPA
February 22, 2013