REPORT NO. 2014-157
MARCH 2014

UNIVERSITY OF SOUTH FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2013

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD OF TRUSTEES AND PRESIDENT

Notes:
(1) System faculty council president (equivalent to faculty senate chair referred to in Section 1001.71(1), Florida Statutes).
(2) Position remained vacant from January 7, 2013, through January 16, 2013.
(3) Student body president.
(4) Position remained vacant from January 7, 2013, through June 27, 2013.
(5) Position remained vacant from October 9, 2012, through March 27, 2013.

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 Dawn T. Meyers, 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) 412-2869.

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) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

UNIVERSITY OF SOUTH FLORIDA
TABLE OF CONTENTS

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

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

- **Presented the University's basic financial statements in accordance with generally accepted accounting principles;**
- **Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and**
- **Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.**

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2013. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the University are included in our report No. 2014-063.

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
111 West Madison Street
Tallahassee, Florida 32399-1450

DAVID W. MARTIN, CPA
AUDITOR GENERAL

PHONE: 850-412-2722
FAX: 850-488-6975

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the University of South Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the blended and aggregate discretely presented component units, as described in note 1 to the financial statements. The financial statements for the blended component unit, represent 2.9 percent, 2 percent, and 0.7 percent, respectively, of the assets, net position, and revenues, reported for the University of South Florida. The financial statements of the aggregate discretely presented component units represent 100 percent of the transactions and account balances of the discretely presented component units' columns. The financial statements of the blended and aggregate discretely presented presented component units were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended and aggregate discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the aggregate discretely presented component units were audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Reporting Required by *Government Auditing Standards*

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* in considering the University of South Florida's internal control over financial reporting and compliance.

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
March 13, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2013, 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. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2013, and June 30, 2012.

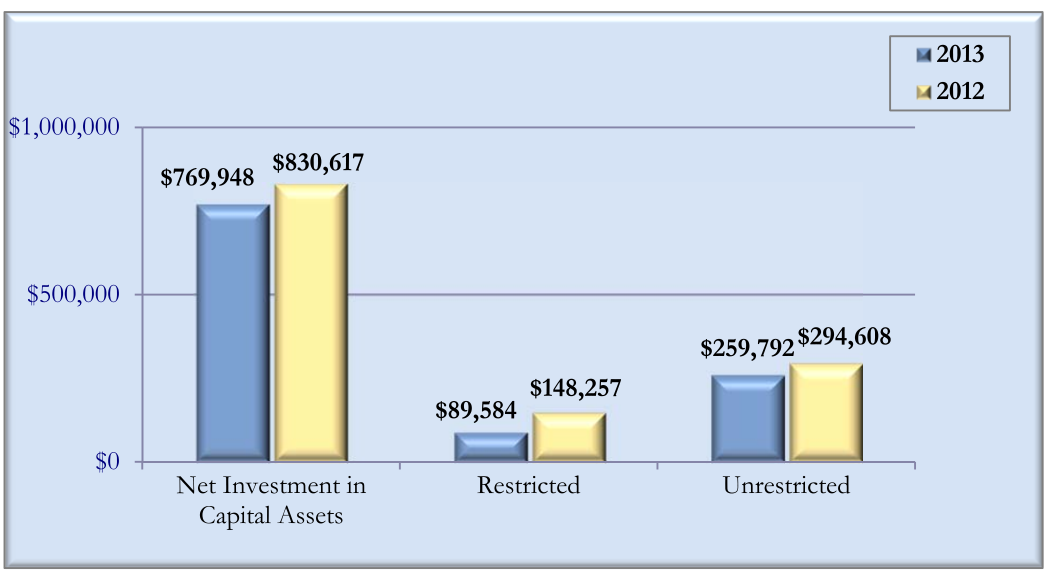
FINANCIAL HIGHLIGHTS

The University's assets totaled $1.4 billion at June 30, 2013. This balance reflects a $181.3 million, or 11.4 percent, decrease as compared to the 2011-12 fiscal year. Liabilities decreased by $27.1 million, or 8.6 percent, totaling $287.7 million at June 30, 2013, as compared to $314.8 million at June 30, 2012. As a result, the University's net position decreased by $154.2 million, resulting in a year-end balance of $1.1 billion.

The University's operating revenues totaled $688.6 million for the 2012-13 fiscal year, representing a 9.4 percent increase over the 2011-12 fiscal year due mainly to increases in student tuition and fees and grants and contracts. Operating expenses totaled $1.1 billion for the 2012-13 fiscal year, representing a decrease of 0.5 percent over the 2011-12 fiscal year due mainly to a decrease in compensation and employee benefits.

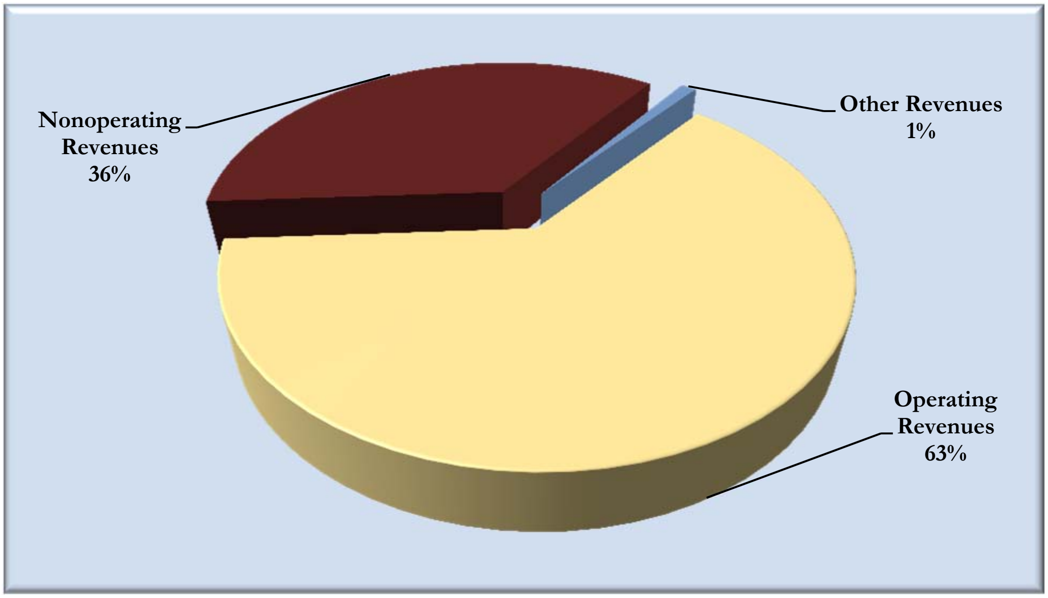
Net position represents the residual interest in the University's assets after deducting liabilities. The University's comparative total net position by category for the fiscal years ended June 30, 2013, and 2012, is shown in the following graph:

Net Position
(In Thousands)



The following chart provides a graphical presentation of University revenues by category for the 2012-13 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 position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. These component units include:

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

THE STATEMENT OF NET POSITION

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

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

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

	2013	2012
Assets		
Current Assets	$ 524,010	$ 600,355
Capital Assets, Net	836,909	915,881
Other Noncurrent Assets	46,133	72,080
Total Assets	1,407,052	1,588,316
Liabilities		
Current Liabilities	126,024	161,961
Noncurrent Liabilities	161,704	152,873
Total Liabilities	287,728	314,834
Net Position		
Net Investment in Capital Assets	769,948	830,617
Restricted	89,584	148,257
Unrestricted	259,792	294,608
Total Net Position	$ 1,119,324	$ 1,273,482

The University's assets totaled $1.4 billion at June 30, 2013. This balance reflects a $181.3 million, or 11.4 percent, decrease from the 2011-12 fiscal year. This decrease is attributable to a decrease in current assets of $76.3 million, a decrease in net capital assets of $79 million, and a decrease in other noncurrent assets of $26 million.

Current and noncurrent cash and investments for the University decreased a total of $59 million between the two fiscal years primarily as a result of reductions in State appropriations and the transfer of assets of the former USF Polytechnic campus to the newly formed Florida Polytechnic University (FPU). In addition, amounts due from the State decreased by $43.2 million and due from component units decreased $3.9 million primarily due to FPU construction project transfers.

Net capital assets decreased by $79 million primarily due to the transfer of capital assets of the former USF Polytechnic campus to the newly formed FPU. The decrease of $25.9 million in other noncurrent assets is attributable to decreased balances in investments in the construction funds.

Total liabilities decreased $27.1 million. Major components of this change include a decrease in accounts payable of $7.8 million, a decrease in deposits payable of $4 million, a decrease in due to component units of $4.6 million, a decrease in unearned revenue of $20.7 million due to a decrease in Alec P. Courtelis matching funds and residential service fees, and a decrease in capital improvement debt payable of $2.7 million, offset by an increase in other postemployment benefits (OPEB) of $16.5 million.

Net position is reported in three major categories. The first category, net investment in capital assets, provides the University's equity in property, plant, and equipment owned by the University. Restricted net position is another category, which may be further broken down into nonexpendable and expendable. Restricted nonexpendable net position represents funds that have been donated to the University that are required to be invested in perpetuity. This net position component is primarily maintained within the University of South Florida Foundation, Inc., a component unit of the University. Restricted expendable net position is available for use by the University, but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position. Unrestricted net position is available to the University for any lawful purpose of the University.

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

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

The following summarizes the University's activity for the 2012-13 and 2011-12 fiscal years:

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

	2012-13	2011-12
Operating Revenues	$ 688,592	$ 629,592
Less, Operating Expenses	1,094,098	1,099,748
Operating Loss	(405,506)	(470,156)
Net Nonoperating Revenues	358,894	378,980
Loss Before Other Revenues, Expenses, Gains, or Losses	(46,612)	(91,176)
Other Revenues, Expenses, Gains, or Losses	(107,546)	64,453
Net Decrease In Net Position	(154,158)	(26,723)
Net Position, Beginning of Year	1,273,482	1,300,205
Net Position, End of Year	$ 1,119,324	$ 1,273,482

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.

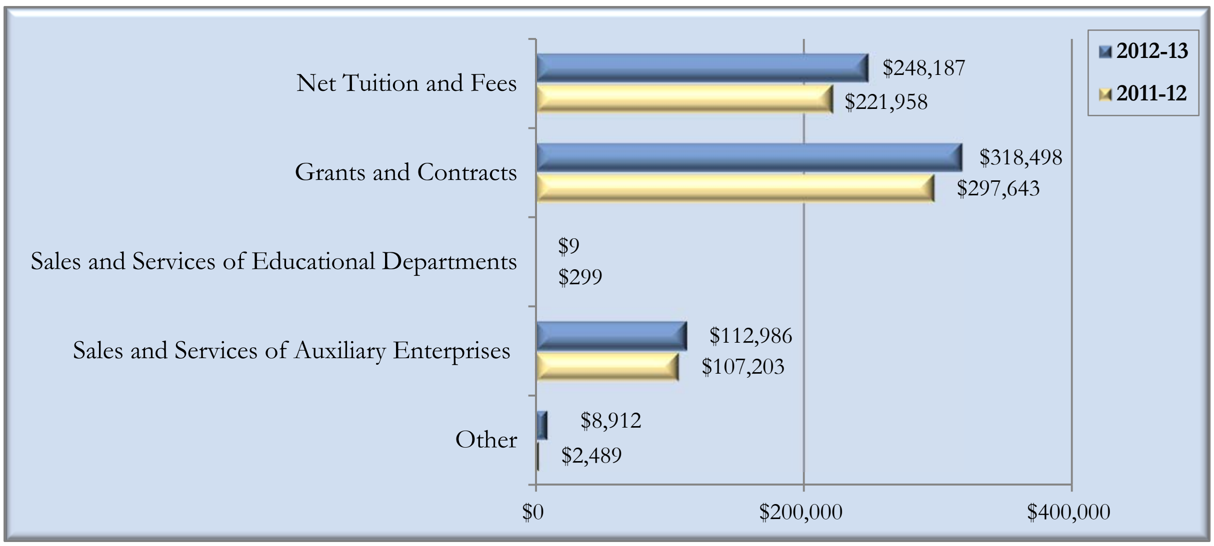
The following summarizes the operating revenues by source that were used to fund operating activities for the 2012-13 and 2011-12 fiscal years:

Operating Revenues
(In Thousands)

	2012-13	2011-12
Net Tuition and Fees	$ 248,187	$ 221,958
Grants and Contracts	318,498	297,643
Sales and Services of Educational Departments	9	299
Sales and Services of Auxiliary Enterprises	112,986	107,203
Other	8,912	2,489
Total Operating Revenues	$ 688,592	$ 629,592

The following chart presents the University's operating revenues for the 2012-13 and 2011-12 fiscal years:

Operating Revenues
(In Thousands)



University operating revenues increased by $59 million. Student tuition and fees increased by $26.2 million due to increases in student fees assessed. Grants and contracts increased by $20.9 million due to new research grants and contracts from Federal, State, local and nongovernmental funding sources. Sales and services of auxiliary enterprises increased $5.8 million primarily from an increase in sales to outside customers and residential services and other revenue increased $6.4 million as a result of increases in self-insurance revenues.

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

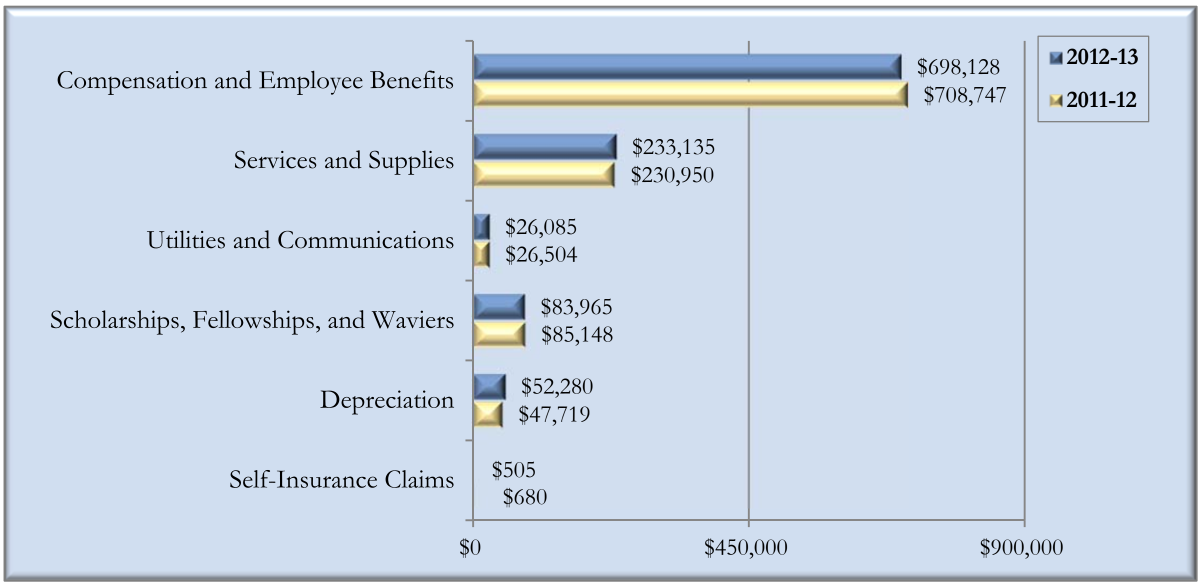
The following summarizes the operating expenses by natural classifications for the 2012-13 and 2011-12 fiscal years:

Operating Expenses
For the Fiscal Years
(In Thousands)

	2012-13	2011-12
Compensation and Employee Benefits	$ 698,128	$ 708,747
Services and Supplies	233,135	230,950
Utilities and Communications	26,085	26,504
Scholarships, Fellowships, and Waivers	83,965	85,148
Depreciation	52,280	47,719
Self-Insurance Claims	505	680
Total Operating Expenses	$ 1,094,098	$ 1,099,748

The following chart presents the University's operating expenses for the 2012-13 and 2011-12 fiscal years:

Operating Expenses
(In Thousands)



Total operating expenses decreased by $5.7 million, resulting primarily from a $10.6 million decrease in compensation and employee benefits offset by a $4.6 million increase in depreciation. The decrease in compensation and employee benefits was due to the dissolution of the USF Polytechnic campus and a hiring freeze implemented in September 2012. The increase in depreciation is a result of reporting a full year depreciation on two new buildings.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2012-13 and 2011-12 fiscal years:

Nonoperating Revenues (Expenses)
(In Thousands)

	2012-13	2011-12
State Noncapital Appropriations	$ 250,932	$ 305,549
Federal and State Student Financial Aid	106,133	107,686
Noncapital Grants and Donations	19,866	20,108
Investment Income	13,185	9,603
Other Nonoperating Revenues	269	2,138
Loss on Disposal of Capital Assets	(4,206)	23
Interest on Capital Asset-Related Debt	(1,734)	(1,669)
Other Nonoperating Expenses	(25,551)	(64,458)
Net Nonoperating Revenues	$ 358,894	$ 378,980

Total net nonoperating revenues decreased by $20.1 million to a total of $358.9 million. The reduction is primarily attributed to a $54.6 million decrease in State noncapital appropriations caused by a decrease in the State's funding in revenue appropriations, offset by a $38.9 million decrease in other nonoperating expenses due to the 2011-12 fiscal year write-off of the net value of capital assets that were below the new capitalization limit.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations, capital grants, contracts, donations, and fees, and required transfers to other State University System (SUS) universities. The following summarizes the University's other revenues, expenses, gains, or losses for the 2012-13 and 2011-12 fiscal years:

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

	2012-13	2011-12
State Capital Appropriations	$ 7,604	$ 37,009
Capital Grants, Contracts, Donations, and Fees	3,674	27,444
Required Transfers To Other SUS Universities	(118,824)	
Total	$ (107,546)	$ 64,453

Total other revenues decreased by $172 million. The decrease of $29.4 million in State capital appropriations resulted from reduced funding of new projects by the State in the 2012-13 fiscal year. The decrease in capital grants, contracts, donations, and fees of $23.8 million resulted from a donated building and building funds from one of the University's component units during the 2011-12 fiscal year. The University also reported $118.8 million in required transfers to other SUS Universities with $118.6 million of the transfer for assets of the former USF Polytechnic campus to the newly formed FPU.

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 2012-13 and 2011-12 fiscal years:

Condensed Statement of Cash Flows
(In Thousands)

	2012-13	2011-12
Cash Provided (Used) by:		
Operating Activities	$ (362,952)	$ (395,183)
Noncapital Financing Activities	334,468	377,542
Capital and Related Financing Activities	(43,696)	(69,573)
Investing Activities	78,647	59,774
Net Increase (Decrease) in Cash and Cash Equivalents	6,467	(27,440)
Cash and Cash Equivalents, Beginning of Year	54,440	81,880
Cash and Cash Equivalents, End of Year	$ 60,907	$ 54,440

Cash used for operating activities decreased by $32.2 million from the prior fiscal year due primarily to increases in operating revenue coupled with relatively constant operating expenses. Major sources of operating activities include net student tuition and fees ($246.1 million), grants and contracts ($302.3 million), and sales and services of auxiliary enterprises ($111.6 million). Included in the calculation of net cash used for operating activities are two major outflows; payments to employees ($684.4 million) and payments to suppliers ($262.8 million). The change primarily resulted from increases in revenue from tuition and fees ($25.1 million), sales and services of auxiliary enterprises ($4.8 million), and other operating receipts ($2.4 million).

Cash provided by noncapital financing decreased by $43.1 million from the 2011-12 fiscal year. The net cash provided by noncapital financing activities consists primarily of $250.9 million of State noncapital appropriations, which decreased $54.6 million. Contributing to the decrease in noncapital financing activities was a decrease of $7.7 million in net change in funds held for others which primarily related to the timing of transfers of funds from a direct-support organization for the USF St. Petersburg Student Center project. This was offset by a $17 million increase in operating subsidies and transfers primarily related to transfers from component units for salary and services support.

Cash used by capital and related financing activities decreased by $25.9 million. This resulted from an $89.9 million decrease in cash used for the purchase or construction of capital assets due primarily to the dissolution of USF Polytechnic and the completion of several construction projects in the 2011-12 fiscal year. This was offset by changes in State capital appropriations of $9.6 million; capital grants, contracts, donations, and fees of $17.9 million; and capital subsidies and transfers of $36.2 million of construction funds related to the former USF Polytechnic to the newly formed FPU.

Cash provided by investing activity increased by $18.9 million, which is attributed to an increase in the net sale of investments of $16.5 million and an increase in investment income of $2.4 million.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2013, the University had $1.4 billion in capital assets, less accumulated depreciation of $559.1 million, for net capital assets of $836.9 million. Depreciation charges for the current fiscal year totaled $52.3 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)

	2013	2012
Land	$ 14,785	$ 32,695
Construction in Progress	3,258	48,628
Buildings	703,180	716,630
Infrastructure and Other Improvements	43,333	45,831
Furniture and Equipment	61,143	59,046
Library Resources	3,811	4,999
Works of Art and Historical Treasures	1,235	1,775
Other Capital Assets	6,164	6,277
Capital Assets, Net	$ 836,909	$ 915,881

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

CAPITAL EXPENSES AND COMMITMENTS

The University's major construction commitments at June 30, 2013, are as follows:

	Amount (In Thousands)
Total Committed	$ 38,345
Completed to Date	(3,258)
Balance Committed	$ 35,087

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

DEBT ADMINISTRATION

As of June 30, 2013, the University had $31.5 million in outstanding capital improvement debt payable and installment purchases payable, representing a decrease of $3.2 million, or 9.2 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)

	2013	2012
Capital Improvement Debt	$ 31,031	$ 33,780
Installment Purchases	424	847
Total	$ 31,455	$ 34,627

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, culminating in a 14.3 percent decrease in funding for State universities for the 2012-13 fiscal year. However, the budget that the Florida Legislature adopted for the 2013-14 fiscal year completely restored the decrease and allocated additional resources, resulting in an increase of 31.3 percent for State universities.

Throughout the recent period of financial challenge, the University has acquired additional resources through Board of Trustee authorized tuition and fee increases, as well as increases in other auxiliary operations and grants and contracts. These operating revenues now represent a larger share of the general revenue budget, which stabilizes the financial position.

Finally, during the 2012 legislative session, the Florida Legislature passed Senate Bill 1994 creating the Florida Polytechnic University from USF Polytechnic of the USF System. This bill resulted in significant transfers of assets from USF to the newly formed university in the 2012-13 fiscal year. In the 2013-14 fiscal year, $8.8 million of transfers have been made and additional transfers are expected as discussed in the subsequent event note to the 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 Jennifer Condon, CPA, Assistant Vice President and 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 POSITION
June 30, 2013

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 59,611,705	$ 29,270,841
Investments	369,884,804	123,236,099
Accounts Receivable, Net	69,012,540	74,788,866
Loans and Notes Receivable, Net	1,255,547	
Due from State	11,550,225	
Due from University		30,034,330
Due from Component Units	10,160,167	10,782,724
Inventories	781,615	1,126,935
Other Current Assets	1,753,052	11,663,048
Total Current Assets	524,009,655	280,902,843
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,295,267	374,286
Restricted Investments	40,257,990	426,308,081
Loans and Notes Receivable, Net	4,317,810	
Depreciable Capital Assets, Net	816,467,320	383,635,056
Nondepreciable Capital Assets	20,441,865	17,658,947
Other Noncurrent Assets	262,085	10,213,717
Total Noncurrent Assets	883,042,337	838,190,087
Total Assets	1,407,051,992	1,119,092,930
DEFERRED OUTFLOWS OF RESOURCES		
Interest Rate Swap Agreement		4,120,912
LIABILITIES		
Current Liabilities:		
Accounts Payable	18,833,385	30,544,243
Construction Contracts Payable	478,841	
Salaries and Wages Payable	14,669,858	12,015,401
Deposits Payable	8,441,853	586,653
Due to University		10,160,167
Due to Component Units	30,034,330	10,782,724
Unearned Revenue	40,680,234	4,062,465
Long-Term Liabilities - Current Portion:		
Bonds Payable		1,580,000
Certificates of Participation Payable		8,515,000
Capital Improvement Debt Payable	2,863,827	
Loans and Notes Payable		4,067,406
Installment Purchases Payable	349,350	
Capital Leases Payable		2,071,578
Estimated Insurance Claims payable	4,188,870	
Compensated Absences Payable	5,483,213	
Total Current Liabilities	126,023,761	84,385,637

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2013

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	$	$ 34,865,000
Certificates of Participation Payable		312,381,427
Capital Improvement Debt Payable	28,167,456	
Loans and Notes Payable		37,909,164
Installment Purchases Payable	74,731	
Capital Leases Payable		3,577,250
Estimated Insurance Claims Payable	13,850,088	
Compensated Absences Payable	57,662,817	
Federal Advance Payable	4,502,942	
Other Noncurrent Liabilities		29,124,323
Other Postemployment Benefits Payable	57,446,000	
Total Noncurrent Liabilities	161,704,034	417,857,164
Total Liabilities	287,727,795	502,242,801
NET POSITION		
Net Investment in Capital Assets	769,948,292	30,948,344
Restricted for Nonexpendable:		
Endowment		488,185,703
Restricted for Expendable:		
Debt Service	3,002,126	
Loans	6,144,192	
Capital Projects	12,059,763	
Other	68,377,588	
Unrestricted	259,792,236	101,836,994
TOTAL NET POSITION	$ 1,119,324,197	$ 620,971,041

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $99,563,795 ($3,022,700 Pledged for Capital Improvement Parking Revenue Bonds)	$ 248,187,348	$
Federal Grants and Contracts	179,856,350	
State and Local Grants and Contracts	18,916,428	
Nongovernmental Grants and Contracts	119,725,642	46,631,265
Sales and Services of Educational Departments	8,693	
Sales and Services of Auxiliary Enterprises ($11,593,668 Pledged for Capital Improvement Parking and Bookstore Revenue Bonds)	112,986,394	
Sales and Services of Component Units		251,695,864
Royalties and Licensing Fees		2,345,894
Gifts and Donations		65,373,151
Interest on Loans and Notes Receivable	243,794	
Other Operating Revenues	8,667,946	42,777,521
Total Operating Revenues	688,592,595	408,823,695
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	698,127,499	182,321,264
Services and Supplies	233,135,377	180,217,014
Utilities and Communications	26,084,963	1,633,338
Scholarships, Fellowships, and Waivers	83,964,501	6,803,004
Depreciation	52,280,452	19,379,175
Self-Insurance Claims	505,445	
Total Operating Expenses	1,094,098,237	390,353,795
Operating Income (Loss)	(405,505,642)	18,469,900
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	250,931,557	
Federal and State Student Financial Aid	106,133,040	
Noncapital Grants and Donations	19,866,237	
Investment Income	13,185,283	50,479,025
Other Nonoperating Revenues	268,922	166,149
Loss on Disposal of Capital Assets	(4,206,331)	
Interest on Capital Asset-Related Debt	(1,733,904)	(5,456,814)
Other Nonoperating Expenses	(25,551,091)	(20,597,649)
Net Nonoperating Revenues	358,893,713	24,590,711
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(46,611,929)	43,060,611
State Capital Appropriations	7,603,949	
Capital Grants, Contracts, Donations, and Fees	3,674,570	
Required Transfers to Other SUS Universities	(118,824,372)	
Increase (Decrease) in Net Position	(154,157,782)	43,060,611
Net Position, Beginning of Year	1,273,481,979	578,314,210
Adjustment to Beginning Net Position		(403,780)
Net Position, Beginning of Year, as Restated	1,273,481,979	577,910,430
Net Position, End of Year	$ 1,119,324,197	$ 620,971,041

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, 2013

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	$ 246,136,013
Grants and Contracts	302,302,113
Sales and Services of Educational Departments	9,725
Sales and Services of Auxiliary Enterprises	111,637,679
Interest on Loans and Notes Receivable	245,981
Payments to Employees	(684,358,139)
Payments to Suppliers for Goods and Services	(262,834,514)
Payments to Students for Scholarships and Fellowships	(83,964,501)
Payments on Self-Insurance Claims and Expenses	(833,814)
Loans Issued to Students	(3,010,008)
Collection on Loans to Students	3,288,974
Other Operating Receipts	8,428,687
Net Cash Used by Operating Activities	(362,951,804)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	250,931,557
Federal and State Student Financial Aid	106,133,040
Noncapital Grants, Contracts, and Donations	19,781,201
Federal Direct Loan Program Receipts	260,262,718
Federal Direct Loan Program Disbursements	(260,262,718)
Operating Subsidies and Transfers	1,783,997
Net Change in Funds Held for Others	(5,093,004)
Other Nonoperating Receipts	290,922
Other Nonoperating Disbursements	(39,359,642)
Net Cash Provided by Noncapital Financing Activities	334,468,071
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	4,242,116
Capital Grants, Contracts, Donations, and Fees	2,508,883
Capital Subsidies and Transfers	(21,013,128)
Purchase or Construction of Capital Assets	(24,531,882)
Principal Paid on Capital Debt and Leases	(3,184,000)
Interest Paid on Capital Debt and Leases	(1,717,731)
Net Cash Used by Capital and Related Financing Activities	(43,695,742)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	180,361,594
Purchase of Investments	(116,176,389)
Investment Income	14,461,192
Net Cash Provided by Investing Activities	78,646,397
Net Increase in Cash and Cash Equivalents	6,466,922
Cash and Cash Equivalents, Beginning of Year	54,440,050
Cash and Cash Equivalents, End of Year	$ 60,906,972

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2013

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (405,505,642)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	52,280,452
Change in Assets and Liabilities:	
Receivables, Net	(6,083,929)
Loans and Notes Receivable, Net	278,966
Inventories	648,503
Other Assets	902,238
Accounts Payable	(4,807,407)
Salaries and Wages Payable	(922,777)
Deposits Payable	399,414
Compensated Absences Payable	(1,276,939)
Unearned Revenue	(15,055,314)
Estimated Insurance Claims Payable	(328,369)
Other Postemployment Benefits Payable	16,519,000
NET CASH USED BY OPERATING ACTIVITIES	$ (362,951,804)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES	
The required transfer of noncash assets to Florida Polytechnic University were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ (89,809,656)
Unrealized losses on investments were recognized as a reduction to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ (1,275,909)
Donation of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ 1,165,687
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ (4,206,331)

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, 2013

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. 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. Condensed financial statements for the University's blended component unit are shown in a subsequent note.

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following affiliated organizations 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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

resources from private gifts and bequests and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- The University of South Florida Foundation, Inc., accepts, invests, administers, and distributes private gifts given for the funding of activities and facilities directly related to the mission, role, and scope of the University of South Florida.
- The University of South Florida Alumni Association, Inc., fosters the spirit of loyalty and fraternity among the graduates, former students, and friends of the University, and promotes their continued active interest in and on behalf of the University.
- The University of South Florida Medical Services Support Corporation has been developed to provide certain nonphysician personnel in support of the operation of facilities that the University owns or governs and 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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

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

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 follows GASB standards of accounting and financial reporting.

The University's discretely presented component units use the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. Some follow GASB standards of accounting and financial reporting, and others follow FASB standards of accounting and financial reporting for not-for-profit organizations.

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

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

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

the University's policy to first apply the restricted resources to such programs, followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the 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 new buildings and other building improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 10 to 40 years, depending on construction
- Infrastructure and Other Improvements – 20 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Other Capital Assets – 3 to 20 years
- Works of Art and Historical Treasures – 5 years

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable, installment purchases payable, estimated insurance claims payable, compensated absences payable, Federal advance payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized premium or discount and deferred losses on refunding. The

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 POSITION – COMPONENT UNIT

The beginning net position of the University of South Florida Research Foundation, Inc., a discretely presented component unit, was decreased by $403,780 due to the adoption of a new GASB Pronouncement, Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 requires bond issuance costs, which were previously deferred and amortized, to be expensed when incurred. Previously deferred bond issuance costs totaled $403,780.

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.

The University's investments at June 30, 2013, are reported at fair value, as follows:

Investment Type	Amount
United States Government and Federally-Guaranteed Obligations	$ 12,025,657
Federal Agency Obligations	3,625,137
Bonds and Notes	13,700,664
Stocks and Other Equity Securities	6,983,512
Hedge Funds	20,660,000
Mutual Funds:	
Equities	57,058,440
Bonds	269,556,001
Money Market	26,533,383
Total University Investments	$ 410,142,794

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

The University's discretely presented component units' investments at June 30, 2013, 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	$	$	$	$	$15,709,467	$	$ 15,709,467
Stocks and Other Equity Securities					6,454,732		6,454,732
Investment Agreements	77,025,512	693,785	3,058,200	(249,110)	3,086,506		83,614,893
Mutual Funds:							
Equities	251,624,563	2,650,482	9,880,255				264,155,300
Bonds	117,362,320	1,210,155	13,369,182			8,044	131,949,701
Money Market	11,197,201	114,386	647,518	23,856,264	11,844,718		47,660,087
Total Component Units Investments	$ 457,209,596	$ 4,668,808	$26,955,155	$23,607,154	$37,095,423	$ 8,044	$ 549,544,180

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

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University, Medical Professional Liability Self-Insurance Program, and the Research Foundation investment policies limit the fixed-income portfolio (United States Treasury securities, United 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.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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, 2013:

University Debt Investment Maturity and Quality Ratings

Investment Type	Weighted or Effective Average Maturities	Credit Quality Rating Moody's	Credit Quality Rating Standard & Poor's	Fair Value
United States Government and Federally-Guaranteed Obligations (4)	3.12 Years (2)	(1)	(1)	$ 12,025,657
Federal Agency Obligations (4)	2.66 Years (2)	Aaa	AA+	2,385,288
Federal Agency Obligations (4)	5.47 Years (2)	Not Rated - Aaa	Not Rated	1,239,849
Bonds and Notes (4)	4.80 Years (2)	Aaa-Baa1	AAA-BBB+	13,359,271
Bonds and Notes (4)	5.01 Years (2)	Aa2	Not Rated	341,393
Bond Mutual Funds (5)	2.93 Years (2)	Not Rated	Not Rated	269,556,001
Hedge Funds (5)	Not Applicable	Not Rated	Not Rated	20,660,000
Money Market Mutual Funds (4)	58 Days (3)	Aaa-mf	AAAm	420,976
Money Market Mutual Funds (5)	54 Days (3)	Not Rated	Not Rated	26,112,407
Total				$ 346,100,842

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

University of South Florida Research Foundation, Inc.
Investment Maturity

Investment Type	Fair Value	Investment Maturites (In Years) Less Than 1	1-5	6-10
Mutual Funds:				
Bonds	$ 13,369,182	$ 37,269	$ 11,256,500	$ 2,075,413
Money Market	647,518	647,518		
Total	$ 14,016,700	$ 684,787	$ 11,256,500	$ 2,075,413

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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	$ 13,369,182	$ 557,803	$ 514,662	$ 1,534,176	$ 10,762,541
Money Market	647,518	540,863			106,655
Total	$ 14,016,700	$ 1,098,666	$ 514,662	$ 1,534,176	$ 10,869,196

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, 2013.

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, 2013, the University reported the following amounts as accounts receivable:

Description	Amount
Contracts and Grants	$ 49,813,662
Student Tuition and Fees	9,575,050
Other	9,623,828
Total Accounts Receivable	$ 69,012,540

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 $12,086,216 and $2,732,125, respectively, at June 30, 2013.

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 and lottery allocations due from the State to the University for construction of University facilities.

6. DUE FROM AND TO COMPONENT UNITS/UNIVERSITY

The $10,160,167 reported as due from component units consists of amounts owed to the University from the University of South Florida Research Foundation, Inc. ($6,651,575), for grant and special project-related revenue and administrative overhead rebate; from the USF Health Professions Conferencing Corporation ($2,028,699), primarily for a line of credit and operating expenses; from Sun Dome, Inc. ($868,843), for operating expenses; from the University of South Florida Foundation, Inc. ($583,074), primarily for the Alec P. Courtelis Facility Matching Gift fund; and from the University of South Florida Alumni Association, Inc. ($27,976), for payroll and other expenses.

The $30,034,330 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 ($27,386,266); to the University Medical Service Association, Inc. ($2,527,657) for deposits made to support the funding of salaries and other operating expenses at USF Health; and to the University of South Florida Medical Services Support Corporation ($120,407) for plant operations and maintenance expense reimbursements for the South Tampa Center.

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 position.
- 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 position, and are valued at cost using either the moving average method or the first-in, first-out method.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

8. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 32,695,490	$ (17,910,000)	$	$	$ 14,785,490
Works of Art and Historical Treasures	1,738,241		500	514,652	1,224,089
Other Capital Assets	1,173,750				1,173,750
Construction in Progress	48,627,762	(33,556,565)	33,048,159	44,860,820	3,258,536
Total Nondepreciable Capital Assets	$ 84,235,243	$ (51,466,565)	$ 33,048,659	$ 45,375,472	$ 20,441,865
Depreciable Capital Assets:					
Buildings	$ 1,064,260,783	$	$ 24,500,425	$ 11,273,000	$ 1,077,488,208
Infrastructure and Other Improvements	85,165,603	(34,919)	538,627		85,669,311
Furniture and Equipment	152,333,865	(827,573)	20,667,866	9,323,885	162,850,273
Library Resources	27,742,627		169,179	5,058,854	22,852,952
Works of Art and Historical Treasures	134,599		10,000		144,599
Other Capital Assets	25,551,562		1,128,070	158,095	26,521,537
Total Depreciable Capital Assets	1,355,189,039	(862,492)	47,014,167	25,813,834	1,375,526,880
Less, Accumulated Depreciation:					
Buildings	347,630,823		32,006,626	5,329,031	374,308,418
Infrastructure and Other Improvements	39,334,470	(9,748)	4,187,181	1,175,971	42,335,932
Furniture and Equipment	93,287,849	(136,086)	13,438,383	4,882,612	101,707,534
Library Resources	22,743,743		1,340,543	5,042,134	19,042,152
Works of Art and Historical Treasures	98,028		132,855	97,380	133,503
Other Capital Assets	20,448,366		1,174,864	91,209	21,532,021
Total Accumulated Depreciation	523,543,279	(145,834)	52,280,452	16,618,337	559,059,560
Total Depreciable Capital Assets, Net	$ 831,645,760	$ (716,658)	$ (5,266,285)	$ 9,195,497	$ 816,467,320

Note: (1) The adjustment to capital assets is the result of the transfer of the former USF Polytechnic campus assets to the newly formed Florida Polytechnic University.

9. UNEARNED REVENUE

Unearned 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, 2013, 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, 2013, the University reported the following amounts as unearned revenue:

Description	Amount
Contracts and Grants	$ 36,025,843
Capital Appropriations	1,832,431
Auxiliary Prepayments	2,814,310
Student Tuition and Fees	7,650
Total Unearned Revenue	$ 40,680,234

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

10. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2013, 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, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable	$ 33,780,110	$	$ 2,748,827	$ 31,031,283	$ 2,863,827
Installment Purchases Payable	846,653	32,668	455,240	424,081	349,350
Estimated Insurance Claims Payable	18,367,327	505,445	833,814	18,038,958	4,188,870
Compensated Absences Payable	64,422,969	4,184,825	5,461,764	63,146,030	5,483,213
Federal Advance Payable	4,624,951		122,009	4,502,942	
Other Postemployment Benefits Payable	40,927,000	20,735,000	4,216,000	57,446,000	
Total Long-Term Liabilities	$ 162,969,010	$ 25,457,938	$ 13,837,654	$ 174,589,294	$ 12,885,260

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2013:

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	$ 1,899,165	6.00	2016
2002 Parking	12,700,000	7,493,330	4.00 - 4.75	2023
2004A Parking	16,000,000	8,972,211	3.375 - 5.00	2024
2006A Parking	17,020,000	12,666,577	4.10 - 5.00	2026
Total Capital Improvement Debt	$ 53,810,000	$ 31,031,283		

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 $31,031,283 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 $39,889,636, and principal and interest paid for the current year totaled $4,266,935. During the 2012-13 fiscal year, traffic and parking fees, transportation access fees, and bookstore revenue totaled $10,060,754, $3,022,700, and $1,532,914, respectively.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
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	2,315,000	863,924	3,178,924
2019-2023	13,130,000	2,762,263	15,892,263
2024-2026	4,455,000	362,890	4,817,890
Subtotal	31,185,000	8,704,636	39,889,636
Net Discounts, Premiums, and Losses on Refundings	(153,717)		(153,717)
Total	$ 31,031,283	$ 8,704,636	$ 39,735,919

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 4.3 percent. Future minimum payments remaining under installment purchase agreements and the present value of the minimum payments as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	Amount
2014	$ 357,891
2015	75,129
Total Minimum Payments	433,020
Less, Amount Representing Interest	8,939
Present Value of Minimum Payments	$ 424,081

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 $4,502,942.

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, 2013, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled $63,146,030. The current portion of the

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

compensated absences liability, $5,483,213, 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 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 2012-13 fiscal year, 978 retirees received postemployment healthcare benefits. The University provided required contributions of $4,216,000 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 $5,889,000, which represents 1.3 percent of covered payroll.

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Description	Amount
Normal Cost (Service Cost for One Year)	$ 11,486,000
Amortization of Unfunded Actuarial Accrued Liability	8,242,000
Interest on Normal Cost and Amortization	789,000
Annual Required Contribution	20,517,000
Interest on Net OPEB Obligation	1,637,000
Adjustment to Annual Required Contribution	(1,419,000)
Annual OPEB Cost (Expense)	20,735,000
Contribution Toward the OPEB Cost	(4,216,000)
Increase in Net OPEB Obligation	16,519,000
Net OPEB Obligation, Beginning of Year	40,927,000
Net OPEB Obligation, End of Year	$ 57,446,000

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, 2013, and for the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	$ 11,489,000	29.7%	$ 25,016,000
2011-12	19,603,000	18.8%	40,927,000
2012-13	20,735,000	20.3%	57,446,000

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 $457,940,897 for the 2012-13 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 50.3 percent.

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

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

The University's OPEB actuarial valuation as of July 1, 2011, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2013, and the University's 2012-13 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 and an inflation rate of 3 percent. Initial healthcare cost trend rates were 8.29 percent, 9.16 percent, and 8.13 percent for the first three years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 10.43 percent, 4.92 percent, and 8.80 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, 2013, was 24 years.

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.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 Series 2012A (refunded Series 2005B Certificates). 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 and mature in 2023.

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.

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.

The Series 2005B variable rate Certificates were converted from auction rate securities to variable rate demand bonds with weekly rate periods in March 2008. In connection with the conversion, the Certificates were secured by an additional credit enhancer and liquidity provider, pursuant to an irrevocable direct-pay letter of credit issued by a counterparty. The letter of credit was scheduled to expire on October 8, 2012.

On October 1, 2012, the Series 2005B Certificates were redeemed with equal par amount proceeds from the issuance of the Series 2012A Refunding Certificates, directly purchased by the counterparty on this date. The 2012A Refunding Certificates mature in 2035. In connection with this refunding, the Financing Corporation cancelled the municipal bond insurance policy for the Series 2005B Certificates. The unamortized portion of the municipal bond insurance policy premium was written off as of June 30, 2013. The refunding of the Certificates was accounted for as an extinguishment of debt and the related unamortized original issuance costs were written off as of June 30, 2013.

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 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 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 2012B (refunded Series 2007 Certificates (Housing). On September 25, 2007, the USF Financing Corporation issued $73,700,000 Certificates of Participation 2007 (Housing). The proceeds derived from the issuance of the certificates were used to: (1) finance the cost to acquire, construct, and equip a certain housing facility on the University's Tampa campus; (2) to fund a capitalized interest account; and (3) to pay certain expenses related to the issuance and sale of the Series 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) 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 were secured pursuant to a letter of credit issued by a counterparty. The letter of credit was scheduled to expire on October 8, 2012. On October 1, 2012, the Series 2007 Certificates (Housing) were redeemed with equal par amount proceeds from the issuance of the Series 2012B Refunding Certificates, directly purchased by the counterparty on this date. The refunding of the Certificates was accounted for as an extinguishment of debt and the related unamortized original issuance costs were written off as of June 30, 2013. The 2012B Refunding Certificates mature in 2037.

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,

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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. 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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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, 2013, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2014	$ 8,515,000	$ 13,476,375	$ 21,991,375
2015	8,870,000	13,135,479	22,005,479
2016	9,200,000	12,766,724	21,966,724
2017	9,600,000	12,365,028	21,965,028
2018	10,040,000	11,961,104	22,001,104
2019-2023	56,745,000	53,024,721	109,769,721
2024-2028	63,665,000	40,260,116	103,925,116
2029-2033	77,620,000	25,609,540	103,229,540
2034-2038	72,455,000	8,321,599	80,776,599
2039-2040	3,420,000	448,770	3,868,770
Subtotal	320,130,000	191,369,456	511,499,456
Add, Net Discounts and Premiums	766,427		766,427
Total	$ 320,896,427	$ 191,369,456	$ 512,265,883

Interest Rate Swap Agreements. To reduce the USF Financing Corporation's risk of interest rate changes with respect to the Series 2012A Certificates (refunded 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 $76,875,000 of the total $89,125,000 principal in variable rate Series 2012A Certificates (refunded 2005B Certificates). The swap agreement expires July 1, 2015.

On March 8, 2006, the USF Financing Corporation entered into an interest rate swap agreement with a counterparty to limit the effects of changes in interest rates on the Series 2006A Certificates. The initial notional amount of the swap agreement is $47,315,000. The effect of the agreement is to limit the interest expense to 3.578 percent on the total $47,315,000 principal in variable rate Series 2006A Certificates. The swap agreement expires July 1, 2016.

On September 13, 2007, the USF Financing Corporation entered into an interest rate swap agreement with a counterparty to limit the effects of changes in interest rates on the Series 2012B Certificates (refunded Series 2007

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Certificates (Housing)). The initial notional amount of the swap agreement is $73,700,000. The effect of the agreement is to limit the interest expense to 3.537 percent on the total $68,975,000 principal in variable Series 2012B Certificates (refunded 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 2012B Certificates (refunded 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 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 2012A Certificates (refunded Series 2005B Certificates) and Series 2012B Certificates (refunded 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 provided by one insurer was terminated in March 2008 in connection with the conversion of the Series 2007 Certificates (Housing). The policy provided by another insurer was cancelled in October 2012 in connection with the refunding of the Series 2005B Certificates.

The collateral provisions of the interest rate swap agreements relating to the Series 2012A and Series 2012B Certificates were amended on October 1, 2012 to incorporate the long-term unenhanced rating of any Housing Certificates issued by the USF Financing Corporation on a parity basis, which rating is required to be at least Baa1 by Moody's Investors Service or BBB+ by Standard & Poor's.

The collateral provisions of the interest rate swap agreements relating to the Series 2012A and Series 2012B Certificates require the USF Financing Corporation to post collateral, in the form of cash or securities, for the negative valuation exposure in excess of the $10 million minimum threshold level. As of June 30, 2013, the posted collateral was $8,300,000.

The fair value of the swap agreements is the estimated amount the USF Financing Corporation would receive or pay to terminate the agreement at the reporting date, taking into account the current interest rates and the current creditworthiness of the counterparties. The USF Financing Corporation interest rate swap agreements had a cumulative negative fair value of $25,003,411 which represents the amount to be paid to terminate the agreements at the reporting date.

As of June 30 2013, 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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

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

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), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS 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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in 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 2012-13 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Senior Management Service	3.00	6.30
Florida Retirement System, Special Risk	3.00	14.90
Florida Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	5.44
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, 2011, June 30, 2012, and June 30, 2013, totaled

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

$16,446,406, $11,357,205, and $11,699,049, respectively, which were equal to the required contributions for each fiscal year.

There were 1,120 University participants in the Investment Plan during the 2012-13 fiscal year. The University's contributions including employee contributions to the Investment Plan totaled $3,621,353, which was equal to the required contribution for the 2012-13 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 FRS for eight 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, 5.64 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 3,555 University participants during the 2012-13 fiscal year. The University's contributions to the Program totaled $13,642,947 and employee contributions totaled $13,816,650 for the 2012-13 fiscal year.

13. CONSTRUCTION COMMITMENTS

The University's construction commitments at June 30, 2013, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
USF Health Heart Institute	$ 6,893,118	$	$ 6,893,118
Other Projects (1)	31,452,849	3,258,536	28,194,313
Total	$ 38,345,967	$ 3,258,536	$ 35,087,431

Note: (1) Individual projects with current balance commited of less than $5 million at June 30, 2013.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 2012-13 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 $50 million for named windstorm and flood losses. 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.

The Program's retained risks range from payments on tort claims limited to $200,000 per claim and $300,000 per occurrence to $3 million per occurrence for professional liability up to an aggregate of $11 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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Program's claim liability amount for the fiscal years ended June 30, 2012, and June 30, 2013, 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
2011-12	$ 23,352,187	$ 680,606	$ (5,665,466)	$ 18,367,327
2012-13	18,367,327	505,445	(833,814)	18,038,958

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

Functional Classification	Amount
Instruction	$ 297,834,561
Research	247,153,010
Public Services	5,166,514
Academic Support	102,015,885
Student Services	44,083,945
Institutional Support	77,709,983
Operation and Maintenance of Plant	53,198,430
Scholarships, Fellowships, and Waivers	83,964,501
Depreciation	52,280,452
Auxiliary Enterprises	130,543,875
Loan Operations	147,081
Total Operating Expenses	$ 1,094,098,237

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 Position

	Parking Facility Capital Improvement Debt
Assets	
Current Assets	$ 10,315,793
Capital Assets, Net	43,030,488
Other Noncurrent Assets	8,643,167
Total Assets	61,989,448
Liabilities	
Current Liabilities	2,489,328
Noncurrent Liabilities	27,346,797
Total Liabilities	29,836,125
Net Position	
Net Investment in Capital Assets	14,160,455
Restricted - Expendable	10,379,618
Unrestricted	7,613,250
Total Net Position	$ 32,153,323

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

	Parking Facility Capital Improvement Debt
Operating Revenues	$ 13,068,141
Depreciation Expense	(1,571,517)
Other Operating Expenses	(8,768,927)
Operating Income	2,727,697
Nonoperating Revenues (Expenses):	
Nonoperating Revenue	119,354
Interest Expense	(1,366,297)
Other Nonoperating Expense	(145,303)
Net Nonoperating Expenses	(1,392,246)
Increase in Net Position	1,335,451
Net Position, Beginning of Year	30,817,872
Net Position, End of Year	$ 32,153,323

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Condensed Statement of Cash Flows

	Parking Facility Capital Improvement Debt
Net Cash Provided (Used) by:	
Operating Activities	$ 4,496,164
Capital and Related Financing Activities	(3,629,284)
Investing Activities	(701,883)
Net Increase in Cash and Cash Equivalents	164,997
Cash and Cash Equivalents, Beginning of Year	2,919,638
Cash and Cash Equivalents, End of Year	$ 3,084,635

18. DEFICIT NET POSITION – COMPONENT UNITS

The University's direct-support organization, University of South Florida Medical Services Support Corporation (MSSC), had a deficit net position balance of $2,255,392 at June 30, 2013. This deficit balance can be attributed primarily to an accrued liability of $5,029,481 that includes 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.

The University's direct-support organization, USFFC, had a deficit net position of $246,469 at June 30, 2013. This deficit balance can be attributed solely to USFFC's equity investment in INTO USF, Inc. (INTO USF). On January 17, 2010, USFFC entered into a subscription agreement with INTO USF, a Florida for-profit corporation, whereby USFFC subscribed for and purchased shares of common stock of INTO USF. USFFC funded its subscription to 50 percent of the issued shares of INTO USF on March 15, 2010.

In the subscription agreement, USFFC represents and warrants that its acquisition of the shares was for investment purposes only and not for resale or distribution. In accordance with Accounting Standards Committee No. 323, *Investment – Equity Method and Joint Ventures*, USFFC has accounted for this investment under the equity method of accounting, as it owns 50 percent of INTO USF's outstanding shares and does not have control over INTO USF. USFFC recognized 50 percent of INTO USF's operating losses as of June 30, 2013, which were equal to $499,110.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

19. BLENDED COMPONENT UNIT

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

Condensed Statement of Net Position

	Medical Professional Liability Self-Insurance Program	University	Eliminations	Total Primary Government
Assets				
Other Current Assets	$ 3,428,302	$ 520,581,353	$	$ 524,009,655
Capital Assets, Net	67,411	836,841,774		836,909,185
Other Noncurrent Assets	37,380,940	8,752,212		46,133,152
Total Assets	40,876,653	1,366,175,339		1,407,051,992
Liabilities				
Other Current Liabilities	69,600	125,954,161		126,023,761
Noncurrent Liabilities	18,038,958	143,665,076		161,704,034
Total Liabilities	18,108,558	269,619,237		287,727,795
Net Position				
Net Investment in Capital Assets	67,411	769,880,881		769,948,292
Restricted - Expendable	22,700,684	66,882,985		89,583,669
Unrestricted		259,792,236		259,792,236
Total Net Position	$ 22,768,095	$ 1,096,556,102	$	$ 1,119,324,197

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

	Medical Professional Liability Self-Insurance Program	University	Eliminations	Total Primary Government
Operating Revenues	$ 7,014,878	$ 682,102,795	$ (525,078)	$ 688,592,595
Depreciation Expense	(6,397)	(52,274,055)		(52,280,452)
Other Operating Expenses	(3,066,965)	(1,039,275,898)	525,078	(1,041,817,785)
Operating Income (Loss)	3,941,516	(409,447,158)		(405,505,642)
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	1,096,988	389,288,051		390,385,039
Interest Expense		(1,733,904)		(1,733,904)
Other Nonoperating Expense		(29,757,422)		(29,757,422)
Net Nonoperating Revenues	1,096,988	357,796,725		358,893,713
Other Revenues, Expenses, Gains, and Losses		(107,545,853)		(107,545,853)
Increase (Decrease) in Net Position	5,038,504	(159,196,286)		(154,157,782)
Net Position, Beginning of Year	17,729,591	1,255,752,388		1,273,481,979
Net Position, End of Year	$ 22,768,095	$ 1,096,556,102	$	$ 1,119,324,197

Condensed Statement of Cash Flows

	Medical Professional Liability Self-Insurance Program	University	Eliminations	Total Primary Government
Net Cash Provided (Used) by:				
Operating Activities	$ 4,575,273	$ (367,527,077)	$	$ (362,951,804)
Noncapital Financing Activities		334,468,071		334,468,071
Capital and Related Financing Activities	(69,643)	(43,626,099)		(43,695,742)
Investing Activities	(6,816,234)	85,462,631		78,646,397
Net Increase (Decrease) in Cash and Cash Equivalents	(2,310,604)	8,777,526		6,466,922
Cash and Cash Equivalents, Beginning of Year	3,647,128	50,792,922		54,440,050
Cash and Cash Equivalents, End of Year	$ 1,336,524	$ 59,570,448	$	$ 60,906,972

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

20. DISCRETELY PRESENTED COMPONENT UNITS

The University has nine discretely presented component units as discussed in note 1. These component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is derived from the most recently available audited financial statements for the component units:

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Condensed Statement of Net Position

	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 Organizations	University Medical Service Association, Inc.	
Assets:										
Current Assets	$ 124,301,062	$ 932,870	$ 2,933,315	$ 10,341,370	$ 1,530,026	$ 14,053,205	$ 42,235,243	$ 196,327,091	$ 84,575,752	$ 280,902,843
Capital Assets, Net	4,386,033		10,095,711	4,126,298	1,334,401	51,595,155	327,707,380	399,244,978	2,049,025	401,294,003
Other Noncurrent Assets	383,482,463	4,097,941	16,268	5,000		23,925,067	23,607,154	435,133,893	1,762,191	436,896,084
Total Assets	512,169,558	5,030,811	13,045,294	14,472,668	2,864,427	89,573,427	393,549,777	1,030,705,962	88,386,968	1,119,092,930
Deferred Outflows of Resources:										
Interest Rate Swap Agreement						4,120,912		4,120,912		4,120,912
Liabilities:										
Current Liabilities	11,654,689	1,807,441	7,400,758	16,486,008	1,958,134	10,413,678	19,321,214	69,041,922	15,343,715	84,385,637
Noncurrent Liabilities			3,335,198	242,052	818,970	38,985,912	374,475,032	417,857,164		417,857,164
Total Liabilities	11,654,689	1,807,441	10,735,956	16,728,060	2,777,104	49,399,590	393,796,246	486,899,086	15,343,715	502,242,801
Net Position:										
Net Investment in Capital Assets	4,386,033		5,117,968	3,475,447	395,431	15,524,440		28,899,319	2,049,025	30,948,344
Restricted	486,820,384	672,867	692,452					488,185,703		488,185,703
Unrestricted	9,308,452	2,550,503	(3,501,082)	(5,730,839)	(308,108)	28,770,309	(246,469)	30,842,766	70,994,228	101,836,994
Total Net Position	$ 500,514,869	$ 3,223,370	$ 2,309,338	$ (2,255,392)	$ 87,323	$ 44,294,749	$ (246,469)	$ 547,927,788	$ 73,043,253	$ 620,971,041

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, 2013

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

	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 Organizations	University Medical Service Association, Inc.	
Operating Revenues	$ 69,321,127	$ 2,264,013	$ 21,169,576	$ 59,208,425	$ 6,912,661	$ 12,137,322	$ 50,475,396	$ 221,488,520	$ 187,335,175	$ 408,823,695
Operating Expenses	(77,558,663)	(2,147,883)	(22,372,540)	(55,535,788)	(6,944,972)	(8,861,479)	(31,416,403)	(204,837,728)	(185,516,067)	(390,353,795)
Operating Income (Loss)	(8,237,536)	116,130	(1,202,964)	3,672,637	(32,311)	3,275,843	19,058,993	16,650,792	1,819,108	18,469,900
Net Nonoperating Revenues (Expenses)	47,506,195	413,046	(1,780,755)	(3,007,641)	(11,346)	(25,418)	(19,293,195)	23,800,886	789,825	24,590,711
Increase (Decrease) in Net Position	39,268,659	529,176	(2,983,719)	664,996	(43,657)	3,250,425	(234,202)	40,451,678	2,608,933	43,060,611
Net Position, Beginning 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
Adjustment to Beginning Net Position (1)						(403,780)		(403,780)		(403,780)
Net Position, Beginning of Year, as Restated	461,246,210	2,694,194	5,293,057	(2,920,388)	130,980	41,044,324	(12,267)	507,476,110	70,434,320	577,910,430
Net Position, End of Year	$ 500,514,869	$ 3,223,370	$ 2,309,338	$ (2,255,392)	$ 87,323	$ 44,294,749	$ (246,469)	$ 547,927,788	$ 73,043,253	$ 620,971,041

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

21. SUBSEQUENT EVENTS

USF Polytechnic, Florida Polytechnic University, and Florida Industrial and Phosphate Research Institute. On April 20, 2012, Sections 1004.345 and 1000.21, Florida Statutes, were revised to: (1) eliminate USF Polytechnic campus (USFP); (2) create 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, the transfer also includes the Florida Industrial and Phosphate Research Institute (FIPR) which was part of USFP. During the 2012-13 fiscal year, $118.6 million of assets were transferred to FPU. During the 2013-14 fiscal year, transfers totaling $8.8 million were made to FPU for FIPR and additional transfers to FPU are expected in the 2013-14 fiscal year.

Component Units. On August 30, 2013, the Boards of Directors of the USF Financing Corporation and the USF Property Corporation authorized the refunding of the Series 2006A and Series 2007 (Health) Certificates of Participation (see note 11) with the issuance of the Series 2013A and Series 2013B Certificates of Participation, respectively. On September 3, 2013, the Series 2006A and 2007 (Health) Certificates were redeemed with equal par amount proceeds from the issuance of the Series 2013A and 2013B Certificates.

On August 30, 2013, the Board of Directors of the USF Financing Corporation authorized the issuance of a $20 million taxable promissory note, Series 2013, to refinance a portion of the costs undertaken by the University to renovate the USF Arena and Convocation Center. The transaction closed on September 27, 2013.

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.

AUDITOR GENERAL
STATE OF FLORIDA

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

DAVID W. MARTIN, CPA
AUDITOR GENERAL

PHONE: 850-412-2722
FAX: 850-488-6975

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

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

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of South Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 13, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the blended and aggregate discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to University management in our operational audit report No. 2014-063.

Purpose of this Report

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

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
March 13, 2014