REPORT NO. 2015-042
NOVEMBER 2014

UNIVERSITY OF SOUTH FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2014

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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 Jenny Phipps, 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
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

Our audit objectives were to determine whether 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, 2014. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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

AUDITOR GENERAL
STATE OF FLORIDA

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S REPORT

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, 2014, 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 of the Medical Professional Liability Self-Insurance Program, a blended component unit, represent 3.1 percent, 2.4 percent, and 0.8 percent, respectively, of the assets, net position, and revenues, reported for the University of South Florida. The financial statements of the aggregate discretely presented component units represents 100 percent of the transactions and account balances of the discretely presented component units' columns. Those financial statements were audited by other auditors whose reports have been furnished to us, and our 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.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, **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
November 12, 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, 2014, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2014, and June 30, 2013.

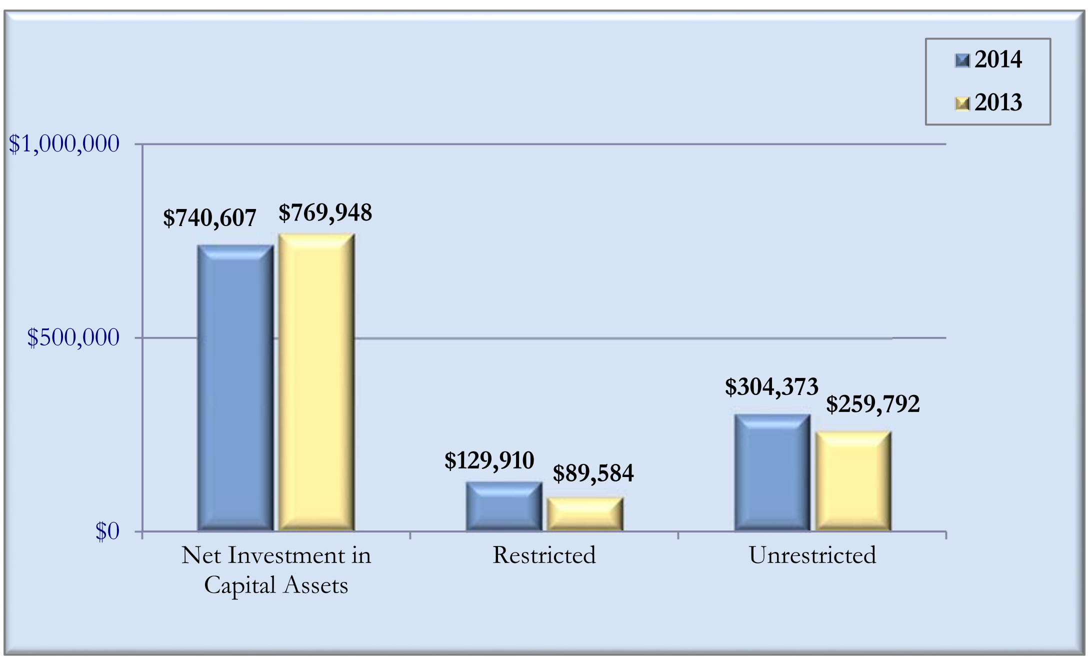
FINANCIAL HIGHLIGHTS

The University's assets totaled $1.5 billion at June 30, 2014. This balance reflects a $107.5 million, or 7.6 percent, increase as compared to the 2012-13 fiscal year. Liabilities increased by $51.9 million, or 18.1 percent, totaling $339.7 million at June 30, 2014, as compared to $287.7 million at June 30, 2013. As a result, the University's net position increased by $55.6 million, resulting in a year-end balance of $1.2 billion.

The University's operating revenues totaled $716.3 million for the 2013-14 fiscal year, representing a 4 percent increase over the 2012-13 fiscal year due mainly to increases in student tuition and fees and grants and contracts. Operating expenses totaled $1.1 billion for the 2013-14 fiscal year, representing an increase of 2.9 percent over the 2012-13 fiscal year due mainly to an increase in compensation and employee benefits.

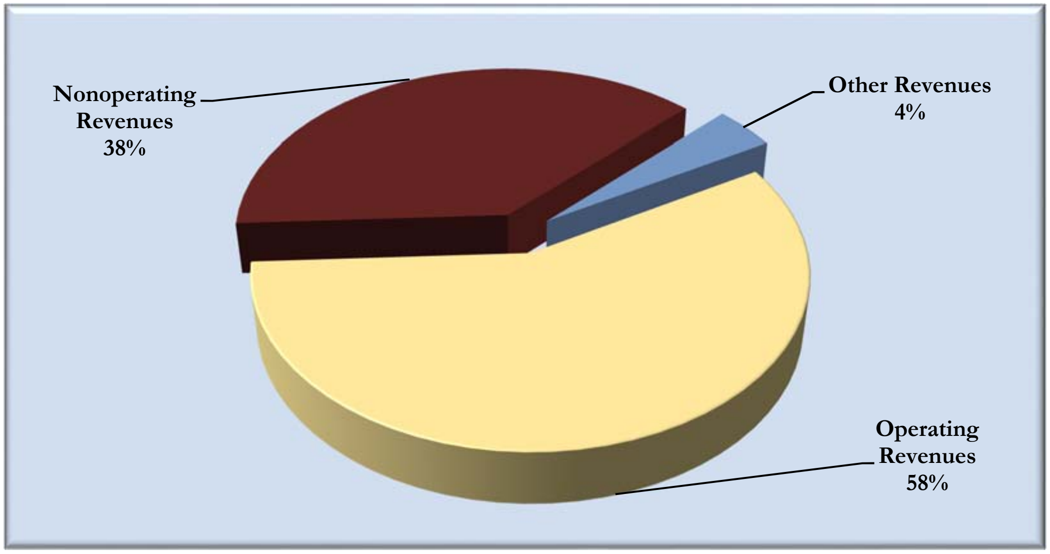
Net position represents the residual interest in the University's assets after deducting liabilities. The University's comparative total net position by category for the fiscal years ended June 30, 2014, and June 30, 2013, is shown in the following graph:

Net Position
(In Thousands)



The following chart provides a graphical presentation of University revenues by category for the 2013-14 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 occur 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)

	2014	2013
Assets		
Current Assets	$ 667,188	$ 524,010
Capital Assets, Net	798,818	836,909
Other Noncurrent Assets	48,550	46,133
Total Assets	1,514,556	1,407,052
Liabilities		
Current Liabilities	154,422	126,024
Noncurrent Liabilities	185,244	161,704
Total Liabilities	339,666	287,728
Net Position		
Net Investment in Capital Assets	740,607	769,948
Restricted	129,910	89,584
Unrestricted	304,373	259,792
Total Net Position	$ 1,174,890	$ 1,119,324

Current and noncurrent cash and investments for the University increased a total of $108.2 million between the two fiscal years primarily as a result of increases in State appropriations and unrealized investment gains. In addition, amounts due from the State increased by $31.5 million, primarily due to the increase in State capital appropriations.

Net capital assets decreased by $38.1 million, primarily due to the required transfer of capital assets of the former USF Polytechnic campus to the Florida Polytechnic University (FPU) and current year depreciation expense.

Total liabilities increased $51.9 million. Major components of this increase include increases in salaries and wages payable of $5.5 million, compensated absences of $6.4 million, due to component units of $16.6 million, and other postemployment benefits (OPEB) of $17.7 million.

Net position is reported in three major categories. The first category, net investment in capital assets, provides the University's equity in property, plant, and equipment owned by the University. Restricted net position is another category, which may be further broken down into nonexpendable and expendable. Restricted nonexpendable net position represents funds that have been donated to the University that are required to be invested in perpetuity. This net position component is primarily maintained within the University of South Florida Foundation, Inc., a component unit of the University. Restricted expendable net position is available for use by the University, but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position and is available 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 2013-14 and 2012-13 fiscal years:

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

	2013-14	2012-13
Operating Revenues	$ 716,303	$ 688,592
Less, Operating Expenses	1,125,884	1,094,098
Operating Loss	(409,581)	(405,506)
Net Nonoperating Revenues	436,679	358,894
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	27,098	(46,612)
Other Revenues, Expenses, Gains, or Losses	28,468	(107,546)
Net Increase (Decrease) In Net Position	55,566	(154,158)
Net Position, Beginning of Year	1,119,324	1,273,482
Net Position, End of Year	$ 1,174,890	$ 1,119,324

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.

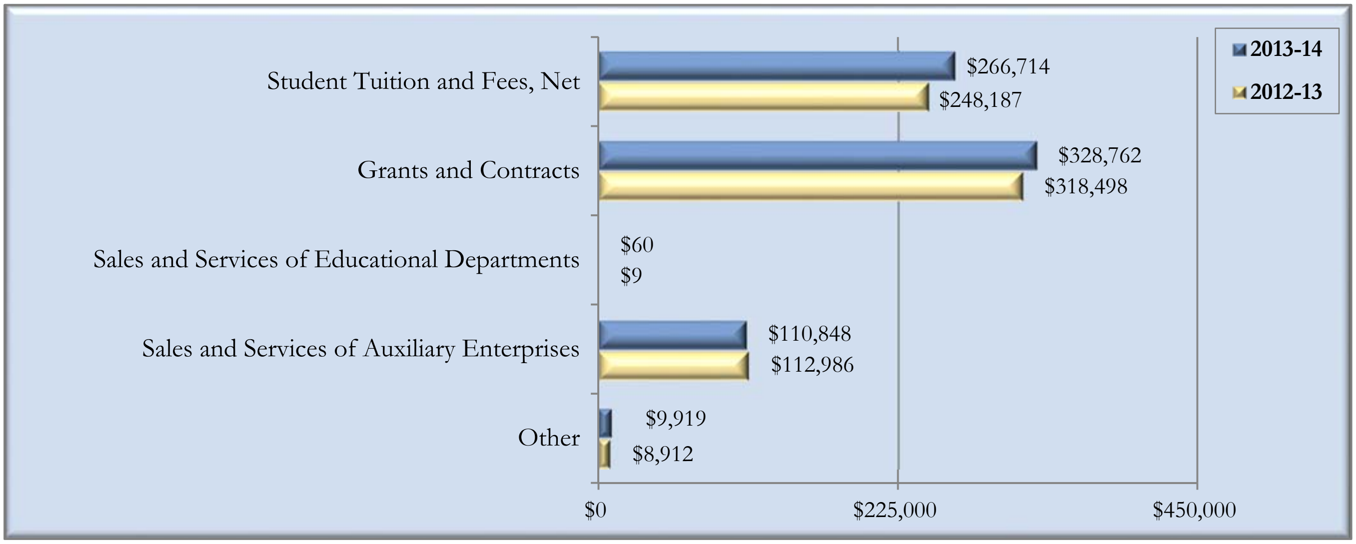
The following summarizes the operating revenues by source that were used to fund operating activities for the 2013-14 and 2012-13 fiscal years:

Operating Revenues
(In Thousands)

	2013-14	2012-13
Student Tuition and Fees, Net	$ 266,714	$ 248,187
Grants and Contracts	328,762	318,498
Sales and Services of Educational Departments	60	9
Sales and Services of Auxiliary Enterprises	110,848	112,986
Other	9,919	8,912
Total Operating Revenues	$ 716,303	$ 688,592

The following chart presents the University's operating revenues for the 2013-14 and 2012-13 fiscal years:

Operating Revenues
(In Thousands)



University operating revenues increased by $27.7 million, or 4 percent. Student tuition and fees increased by $18.5 million due to growth in out-of-state and graduate student enrollment. Grants and contracts increased by $10.3 million, due to new research grants and contracts from State and local and nongovernmental funding sources.

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.

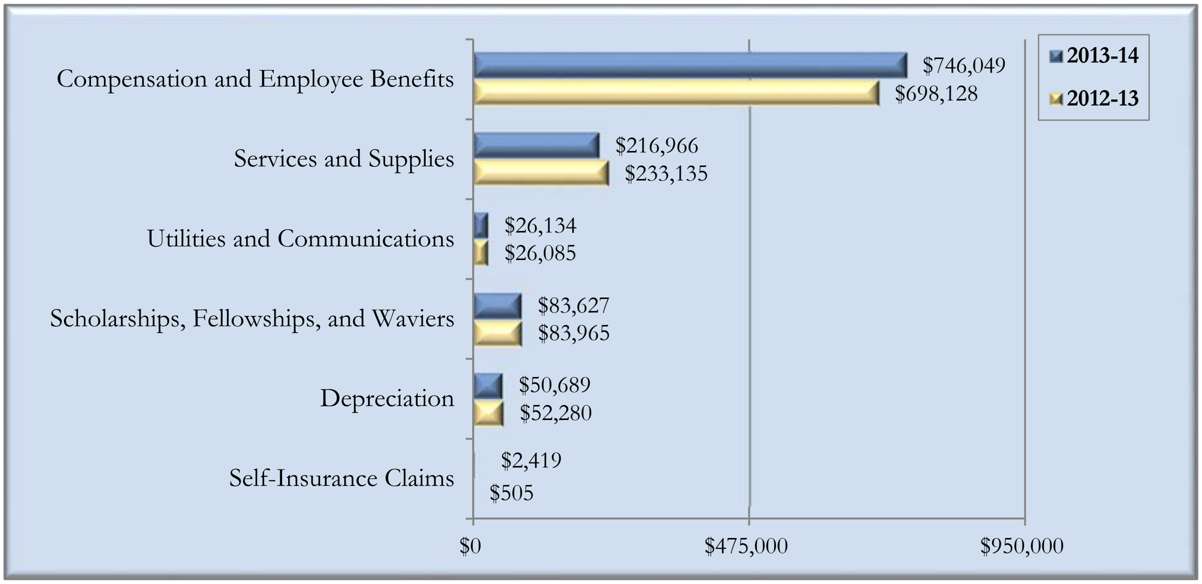
The following summarizes the operating expenses by natural classifications for the 2013-14 and 2012-13 fiscal years:

Operating Expenses
For the Fiscal Years
(In Thousands)

	2013-14	2012-13
Compensation and Employee Benefits	$ 746,049	$ 698,128
Services and Supplies	216,966	233,135
Utilities and Communications	26,134	26,085
Scholarships, Fellowships, and Waivers	83,627	83,965
Depreciation	50,689	52,280
Self-Insurance Claims	2,419	505
Total Operating Expenses	$ 1,125,884	$ 1,094,098

The following chart presents the University's operating expenses for the 2013-14 and 2012-13 fiscal years:

Operating Expenses
(In Thousands)



Total operating expenses increased by $31.8 million, resulting primarily from a $47.9 million increase in compensation and employee benefits offset by a $16.2 million decrease in services and supplies. The increase in compensation and employee benefits was primarily due to salary increases and health care benefit and retirement contribution rate increases, as well as increases in the accruals for compensated absences and other postemployment benefits. The decrease in services and supplies was primarily due to reductions in minor renovations as a result of increased funding for capital projects and reductions in minor projects funding.

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 2013-14 and 2012-13 fiscal years:

Nonoperating Revenues (Expenses)
(In Thousands)

	2013-14	2012-13
State Noncapital Appropriations	$ 322,514	$ 250,932
Federal and State Student Financial Aid	105,434	106,133
Noncapital Grants and Donations	22,255	19,866
Investment Income	27,284	13,185
Other Nonoperating Revenues	117	269
Loss on Disposal of Capital Assets	(5,785)	(4,206)
Interest on Capital Asset-Related Debt	(1,417)	(1,734)
Other Nonoperating Expenses	(33,723)	(25,551)
Net Nonoperating Revenues	$ 436,679	$ 358,894

Total net nonoperating revenues increased by $77.8 million primarily attributed to an increase of $71.6 million in State noncapital appropriations.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2013-14 and 2012-13 fiscal years:

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

	2013-14	2012-13
State Capital Appropriations	$ 37,511	$ 7,604
Capital Grants, Contracts, Donations, and Fees	13,143	3,674
Required Transfers to Other SUS Universities	(22,186)	(118,824)
Total	$ 28,468	$ (107,546)

Total other revenues increased by $136 million. The increase of $29.9 million in State capital appropriations resulted from the restoration of State funding of capital projects in the 2013-14 fiscal year. The increase in capital grants, contracts, donations, and fees of $9.5 million was related to a transfer from the University of South Florida Foundation, Inc., to partially fund the renovation of the Sun Dome arena. The decrease of $96.6 million in required transfers to other SUS universities was primarily due to the prior fiscal year initial transfer of assets of the former USF Polytechnic campus to the newly formed FPU. For the 2013-14 fiscal year, the University reported $22.2 million in required transfers to other SUS Universities with $20.3 million representing the final transfer of 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 2013-14 and 2012-13 fiscal years:

Condensed Statement of Cash Flows
(In Thousands)

	2013-14	2012-13
Cash Provided (Used) by:		
Operating Activities	$ (327,223)	$ (362,952)
Noncapital Financing Activities	404,456	334,468
Capital and Related Financing Activities	3,698	(43,696)
Investing Activities	(93,865)	78,647
Net Increase (Decrease) in Cash and Cash Equivalents	(12,934)	6,467
Cash and Cash Equivalents, Beginning of Year	60,907	54,440
Cash and Cash Equivalents, End of Year	$ 47,973	$ 60,907

Cash used for operating activities decreased by $35.7 million from the prior fiscal year due primarily to increases in cash provided by operating revenue. Major sources of operating activities include net student tuition and fees ($265.2 million), grants and contracts ($328.6 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 ($716 million) and payments to suppliers ($241.2 million). The change primarily resulted from increases in cash collected from tuition and fees ($19.1 million) and grants and contracts ($26.3 million), and a decrease in cash used for payments to suppliers for goods and services ($21.7 million) offset by an increase in cash used for payments to employees ($31.7 million).

Cash provided by noncapital financing activities increased by $70 million from the 2012-13 fiscal year. The net cash provided by noncapital financing activities consists primarily of $322.5 million of State noncapital appropriations, which increased $71.6 million.

Cash provided by capital and related financing activities increased by $47.4 million. This was primarily due to an increase in capital grants, contracts, donations, and fees of $9.6 million; capital subsidies and transfers of $40.6 million, and a decrease in purchase or construction of capital assets of $4.8 million. Capital subsidies and transfers increased primarily due to prior fiscal year transfers of capital cash from the former USF Polytechnic campus to the newly formed FPU and increases in due to component units.

Cash used by investing activities increased by $172.5 million, which is attributed to an increase in the net purchase of investments of $173.4 million.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2014, the University had $1.4 billion in capital assets, less accumulated depreciation of $575 million, for net capital assets of $798.8 million. Depreciation charges for the current fiscal year totaled $50.7 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30
(In Thousands)

	2014	2013
Land	$ 14,785	$ 14,785
Construction in Progress	13,323	3,258
Buildings	662,512	703,180
Infrastructure and Other Improvements	36,773	43,333
Furniture and Equipment	59,343	61,143
Library Resources	4,852	3,811
Property Under Capital Leases	191	
Works of Art and Historical Treasures	1,236	1,235
Other Capital Assets	5,803	6,164
Capital Assets, Net	$ 798,818	$ 836,909

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

CAPITAL EXPENSES AND COMMITMENTS

The University's construction commitments at June 30, 2014, are as follows:

	Amount (In Thousands)
Total Committed	$ 64,493
Completed to Date	(13,323)
Balance Committed	$ 51,170

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

DEBT ADMINISTRATION

As of June 30, 2014, the University had $28.4 million in outstanding capital improvement debt payable, installment purchases payable, and capital leases payable, representing a decrease of $3.1 million, or 9.7 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)

	2014	2013
Capital Improvement Debt	$ 28,167	$ 31,031
Installment Purchases	75	424
Capital Leases	156	
Total	$ 28,398	$ 31,455

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University's economic condition is closely tied to that of the State of Florida. The budget adopted by the Florida Legislature for the 2014-15 fiscal year provided a 6 percent increase to State universities and introduced performance-based funding to the university funding model. This increase translated to $43.7 million in additional University of South Florida Educational and General Funds. As the Legislature and the Board of Governors further emphasize performance-based funding, USF's focus on student success should result in additional appropriations.

In addition to State funding, the University receives significant operating revenues from other sources including tuition and fees, other auxiliary operations and grants and contracts. These operating revenues represent a large share of the general revenue budget, which mitigates the impact of economic factors through diversification.

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, 2014

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 47,641,897	$ 16,253,414
Investments	487,879,550	117,346,605
Accounts Receivable, Net	75,026,519	67,697,019
Loans and Notes Receivable, Net	880,864	
Due from State	43,025,414	
Due from University		46,671,512
Due from Component Units	10,443,335	8,685,395
Inventories	884,628	1,206,539
Other Current Assets	1,405,554	10,696,672
Total Current Assets	667,187,761	268,557,156
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	330,896	1,091,667
Restricted Investments	43,408,310	486,582,515
Loans and Notes Receivable, Net	4,569,528	
Depreciable Capital Assets, Net	768,306,800	373,690,773
Nondepreciable Capital Assets	30,511,159	14,976,428
Other Noncurrent Assets	241,637	8,559,191
Total Noncurrent Assets	847,368,330	884,900,574
Total Assets	1,514,556,091	1,153,457,730
DEFERRED OUTFLOWS OF RESOURCES		
Interest Rate Swap Agreement		2,936,960
LIABILITIES		
Current Liabilities:		
Accounts Payable	20,818,781	17,723,011
Construction Contracts Payable	473,489	
Salaries and Wages Payable	20,166,508	5,174,865
Deposits Payable	12,561,215	214,333
Due to University		10,443,335
Due to Component Units	46,671,512	8,685,395
Unearned Revenue	42,450,079	4,616,941
Long-Term Liabilities - Current Portion:		
Bonds Payable		3,574,958
Certificates of Participation Payable		8,870,000
Capital Improvement Debt Payable	2,998,827	
Loans and Notes Payable		166,420
Installment Purchases Payable	74,731	964,178
Capital Leases Payable	47,626	534,736
Estimated Insurance Claims Payable	2,195,877	
Compensated Absences Payable	5,963,383	
Total Current Liabilities	154,422,028	60,968,172

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2014

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	$	$ 91,042,090
Certificates of Participation Payable		303,409,086
Capital Improvement Debt Payable	25,168,629	
Loans and Notes Payable		1,007,064
Installment Purchases Payable		1,471,460
Capital Leases Payable	108,626	1,047,225
Estimated Insurance Claims Payable	16,814,533	
Compensated Absences Payable	63,598,076	
Federal Advance Payable	4,371,552	
Other Noncurrent Liabilities		24,686,770
Other Postemployment Benefits Payable	75,183,000	
Total Noncurrent Liabilities	185,244,416	422,663,695
Total Liabilities	339,666,444	483,631,867
NET POSITION		
Net Investment in Capital Assets	740,607,243	30,986,621
Restricted for Nonexpendable:		
Endowment		532,418,789
Restricted for Expendable:		
Debt Service	652,757	
Loans	6,180,227	
Capital Projects	21,186,107	
Other	101,890,674	
Unrestricted	304,372,639	109,357,413
TOTAL NET POSITION	$ 1,174,889,647	$ 672,762,823

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, 2014

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $102,585,377 ($3,080,758 Pledged for Capital Improvement Parking Revenue Bonds)	$ 266,713,980	$
Federal Grants and Contracts	181,028,436	
State and Local Grants and Contracts	22,436,185	
Nongovernmental Grants and Contracts	125,296,979	48,438,026
Sales and Services of Educational Departments	59,647	
Sales and Services of Auxiliary Enterprises ($12,056,494 Pledged for Capital Improvement Parking and Bookstore Revenue Bonds)	110,848,604	
Sales and Services of Component Units		271,450,249
Royalties and Licensing Fees		1,791,250
Gifts and Donations		142,962,897
Interest on Loans and Notes Receivable	213,350	
Other Operating Revenues	9,705,875	36,914,092
Total Operating Revenues	716,303,056	501,556,514
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	746,049,529	190,037,420
Services and Supplies	216,966,061	285,597,993
Utilities and Communications	26,134,052	4,123,429
Scholarships, Fellowships, and Waivers	83,626,791	6,938,207
Depreciation	50,688,542	18,436,260
Self-Insurance Claims	2,419,350	
Total Operating Expenses	1,125,884,325	505,133,309
Operating Loss	(409,581,269)	(3,576,795)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	322,514,490	
Federal and State Student Financial Aid	105,434,366	
Noncapital Grants and Donations	22,254,923	
Investment Income	27,284,276	81,235,259
Other Nonoperating Revenues	117,066	2,869,266
Loss on Disposal of Capital Assets	(5,785,036)	
Interest on Capital Asset-Related Debt	(1,417,389)	(14,373,710)
Other Nonoperating Expenses	(33,723,802)	(14,362,238)
Net Nonoperating Revenues	436,678,894	55,368,577
Income Before Other Revenues, Expenses, Gains, or Losses	27,097,625	51,791,782
State Capital Appropriations	37,511,413	
Capital Grants, Contracts, Donations, and Fees	13,142,905	
Required Transfers to Other SUS Universities	(22,186,493)	
Increase in Net Position	55,565,450	51,791,782
Net Position, Beginning of Year	1,119,324,197	620,971,041
Net Position, End of Year	$ 1,174,889,647	$ 672,762,823

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, 2014

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	$ 265,234,393
Grants and Contracts	328,594,651
Sales and Services of Educational Departments	58,849
Sales and Services of Auxiliary Enterprises	111,552,055
Interest on Loans and Notes Receivable	216,553
Payments to Employees	(716,028,723)
Payments to Suppliers for Goods and Services	(241,166,632)
Payments to Students for Scholarships and Fellowships	(83,626,791)
Payments on Self-Insurance Claims and Expenses	(1,447,898)
Loans Issued to Students	(2,354,080)
Collection on Loans to Students	2,421,099
Other Operating Receipts	9,323,766
Net Cash Used by Operating Activities	(327,222,758)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	322,514,490
Federal and State Student Financial Aid	105,434,366
Noncapital Grants, Contracts, and Donations	23,336,280
Federal Direct Loan Program Receipts	263,697,532
Federal Direct Loan Program Disbursements	(263,697,532)
Operating Subsidies and Transfers	(8,213,513)
Net Change in Funds Held for Others	(171,944)
Other Nonoperating Receipts	59,066
Other Nonoperating Disbursements	(38,503,182)
Net Cash Provided by Noncapital Financing Activities	404,455,563
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	5,958,830
Capital Grants, Contracts, Donations, and Fees	12,084,105
Capital Subsidies and Transfers	19,606,939
Other Receipts for Capital Projects	58,000
Purchase or Construction of Capital Assets	(29,313,656)
Principal Paid on Capital Debt and Leases	(3,295,175)
Interest Paid on Capital Debt and Leases	(1,401,216)
Net Cash Provided by Capital and Related Financing Activities	3,697,827
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	346,929,110
Purchase of Investments	(456,176,227)
Investment Income	15,382,306
Net Cash Used by Investing Activities	(93,864,811)
Net Decrease in Cash and Cash Equivalents	(12,934,179)
Cash and Cash Equivalents, Beginning of Year	60,906,972
Cash and Cash Equivalents, End of Year	$ 47,972,793

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2014

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (409,581,269)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	50,688,542
Change in Assets and Liabilities:	
Receivables, Net	(2,236,436)
Loans and Notes Receivable, Net	67,019
Inventories	(103,013)
Other Assets	54,489
Accounts Payable	1,688,996
Salaries and Wages Payable	5,496,650
Deposits Payable	275,362
Compensated Absences Payable	6,415,429
Unearned Revenue	1,303,021
Estimated Insurance Claims Payable	971,452
Other Postemployment Benefits Payable	17,737,000
NET CASH USED BY OPERATING ACTIVITIES	$ (327,222,758)

SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING AND INVESTING 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.	$ (11,512,207)
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.	$ 1,058,800
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.	$ (5,785,036)
Unrealized gains on investments were recognized as an addition 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.	$ 11,901,970

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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. Although it is legally separate from the University, the Medical Professional Liability Self-Insurance Program is included within the University's reporting entity as a blended component unit because the component unit provides services entirely to the University. The Medical Professional Liability Self-Insurance Program was created in 1972 to provide 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 audit report is submitted to the Auditor General and the 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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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

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

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, 2014

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; property under capital leases, works of art and historical treasures; and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at 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
- Property Under Capital Leases – 7 to 10 years
- Other Capital Assets – 3 to 20 years
- Works of Art and Historical Treasures – 5 years

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable, capital leases 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. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method.

2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (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, 2014, are reported at fair value, as follows:

Investment Type	Amount
United States Treasury Securities	$ 11,738,752
Obligations of United States Government Agencies and Instrumentalities	2,308,158
Bonds and Notes	17,962,794
Stocks and Other Equity Securities	8,867,235
Hedge Funds	23,178,083
Mutual Funds:	
Equities	94,670,196
Bonds	328,232,543
Money Market	44,330,099
Total University Investments	$ 531,287,860

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

The University's discretely presented component units' investments at June 30, 2014, 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	$	$	$	$	$ 15,173,185	$	$ 15,173,185
Stocks and Other							
Equity Securities			3,331,444		9,204,820		12,536,264
Investment Agreements	85,665,975	837,228	3,628,613	(207,632)	3,399,210		93,323,394
Mutual Funds:							
Equities	284,140,443	3,255,949	13,161,799				300,558,191
Bonds	118,807,054	1,332,285	8,442,465			8,180	128,589,984
Money Market	15,619,581	174,726	1,344,180	24,757,824	11,851,791		53,748,102
Total Component Units' Investments	$ 504,233,053	$ 5,600,188	$ 29,908,501	$ 24,550,192	$ 39,629,006	$ 8,180	$ 603,929,120

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, 2014

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, 2014:

University Debt Investment Maturity and Quality Ratings

Investment Type	Weighted Average Maturities	Credit Quality Rating: Moody's	Credit Quality Rating: Standard & Poor's	Fair Value
United States Treasury Securities (2)	2.54 Years	(1)	(1)	$ 11,738,752
Obligations of United States Government Agencies and Instrumentalities (2)	1.68 Years	Aaa	AA+	2,308,158
Bonds and Notes (2)	4.36 Years	Aa1 - A3	AAA - A-	17,040,393
Bonds and Notes (2)	3.36 Years	Aaa - Aa2	Not Rated	922,401
Bond Mutual Funds (3)	2.94 Years	Not Rated	Not Rated	328,232,543
Hedge Funds (3)	Not Applicable	Not Rated	Not Rated	23,178,083
Money Market Mututal Funds (2)	13 Days	Aaa-mf	AAAm	812,277
Money Market Mutual Funds (3)	51 Days	Not Rated	Not Rated	26,128,525
Money Market Mutual Funds (3)	30 Days	Aaa-mf	AAAm	17,389,297
Total				$ 427,750,429

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

University of South Florida Research Foundation, Inc.
Investment Maturity

Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
	Investment Maturites (In Years)				
Mutual Funds:					
Bonds	$ 8,442,465	$ 305,106	$ 4,459,475	$ 3,142,863	$ 535,021
Money Market	1,344,180	1,344,180			
Total	$ 9,786,645	$ 1,649,286	$ 4,459,475	$ 3,142,863	$ 535,021

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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	$ 8,442,465	$ 279,195	$ 605,886	$ 2,498,712	$ 5,058,672
Money Market	1,344,180	1,034,547			309,633
Total	$ 9,786,645	$ 1,313,742	$ 605,886	$ 2,498,712	$ 5,368,305

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, 2014.

3. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2014, the University reported the following amounts as accounts receivable:

Description	Amount
Contracts and Grants	$ 50,634,869
Student Tuition and Fees	11,037,421
Other	13,354,229
Total Accounts Receivable	$ 75,026,519

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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 $12,955,970 and $2,836,772, respectively, at June 30, 2014.

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

4. DUE FROM STATE

This amount consists of $28,466,499 from Public Education Capital Outlay, $8,865,797 from Capital Improvement Fee Trust Fund, and $5,693,118 from lottery allocations due from the State to the University for construction of University facilities.

5. DUE FROM AND TO COMPONENT UNITS/UNIVERSITY

The $10,443,335 reported as due from component units consists of amounts owed to the University from the University of South Florida Research Foundation, Inc. ($6,193,218), for grant and special project-related revenue and administrative overhead rebate; from the USF Health Professions Conferencing Corporation ($2,714,550), for a line of credit ($1,500,000) and operating expenses ($1,214,550); from Sun Dome, Inc. ($868,842) for operating expenses; from the University of South Florida Foundation, Inc. ($641,465), primarily for the Alec P. Courtelis Facility Matching Gift fund; and from the University of South Florida Alumni Association ($25,260) for payroll and other expenses.

The $46,671,512 reported as due to component units represents amounts owed by the University to the USF Financing Corporation for the construction and financing of buildings and pledged revenues ($43,961,210); to the University Medical Service Association, Inc. ($2,687,675) 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 ($22,627) for payroll expenses.

6. INVENTORIES

Inventories have been categorized into the following two types:

- Departmental Inventories – Those inventories maintained by departments and not available for resale. Departmental inventories are comprised of such items as classroom and laboratory supplies, teaching materials, and office supply items, which are consumed in the teaching and work process. These inventories are normally expensed when purchased and therefore are not reported on the statement of net 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.

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7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2014, is shown below:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 14,785,490	$	$	$	$ 14,785,490
Works of Art and Historical Treasures	1,224,089		5,000		1,229,089
Other Capital Assets	1,173,750				1,173,750
Construction in Progress	3,258,536		12,408,915	2,344,621	13,322,830
Total Nondepreciable Capital Assets	$ 20,441,865	$	$ 12,413,915	$ 2,344,621	$ 30,511,159
Depreciable Capital Assets:					
Buildings	$ 1,077,488,208	$ (14,278,509)	$ 2,360,551	$ 542,580	$ 1,065,027,670
Infrastructure and Other Improvements	85,669,311		1,997,055	15,460,036	72,206,330
Furniture and Equipment	162,850,273	(1,735,766)	13,384,119	11,944,101	162,554,525
Library Resources	22,852,952	(63,032)	2,394,113	8,580,146	16,603,887
Property under Capital Leases			228,037		228,037
Works of Art and Historical Treasures	144,599				144,599
Other Capital Assets	26,521,537	(280,550)	464,230	163,250	26,541,967
Total Depreciable Capital Assets	1,375,526,880	(16,357,857)	20,828,105	36,690,113	1,343,307,015
Less, Accumulated Depreciation:					
Buildings	374,308,418	(3,331,995)	31,808,888	269,115	402,516,196
Infrastructure and Other Improvements	42,335,932		3,542,753	10,445,465	35,433,220
Furniture and Equipment	101,707,534	(1,212,035)	13,583,781	10,868,095	103,211,185
Library Resources	19,042,152	(47,276)	930,451	8,173,359	11,751,968
Property under Capital Leases			36,998		36,998
Works of Art and Historical Treasures	133,503		3,930		137,433
Other Capital Assets	21,532,021	(254,344)	781,741	146,203	21,913,215
Total Accumulated Depreciation	559,059,560	(4,845,650)	50,688,542	29,902,237	575,000,215
Total Depreciable Capital Assets, Net	$ 816,467,320	$ (11,512,207)	$ (29,860,437)	$ 6,787,876	$ 768,306,800

Note: (1) Adjustments to capital assets resulted from the required transfer of the former USF Polytechnic campus assets to the newly formed Florida Polytechnic University.

8. 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, 2014, 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, 2014, the University reported the following amounts as unearned revenue:

Description	Amount
Contracts and Grants	$ 37,776,688
Capital Appropriations	1,755,036
Auxiliary Prepayments	2,779,625
Student Tuition and Fees	138,730
Total Unearned Revenue	$ 42,450,079

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9. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2014, include capital improvement debt payable, installment purchases payable, capital leases 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, 2014, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable	$ 31,031,283	$	$ 2,863,827	$ 28,167,456	$ 2,998,827
Installment Purchases Payable	424,081		349,350	74,731	74,731
Capital Leases Payable		228,037	71,785	156,252	47,626
Estimated Insurance Claims Payable	18,038,958	2,419,350	1,447,898	19,010,410	2,195,877
Compensated Absences Payable	63,146,030	12,166,603	5,751,174	69,561,459	5,963,383
Federal Advance Payable	4,502,942		131,390	4,371,552	
Other Postemployment Benefits Payable	57,446,000	21,708,000	3,971,000	75,183,000	
Total Long-Term Liabilities	$ 174,589,294	$ 36,521,990	$ 14,586,424	$ 196,524,860	$ 11,280,444

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2014:

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	$ 1,307,777	6.00	2016
2002 Parking	12,700,000	6,883,497	4.25 - 4.75	2023
2004A Parking	16,000,000	8,044,110	3.625 - 5.00	2024
2006A Parking	17,020,000	11,932,072	4.10 - 5.00	2026
Total Capital Improvement Debt	$ 53,810,000	$ 28,167,456		

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

The University has pledged a portion of future traffic and parking fees, and various student fee assessments to repay $28,167,456 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 and are payable through 2026. 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 $35,622,751, and principal and interest paid for the current year totaled $4,266,885. During the 2013-14 fiscal year, traffic and parking fees, transportation access fees, and bookstore revenue totaled $10,591,753, $3,080,758, and $1,464,741, respectively.

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Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
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	2,415,000	768,299	3,183,299
2020-2024	12,735,000	2,191,254	14,926,254
2025-2026	2,435,000	165,600	2,600,600
Subtotal	28,305,000	7,317,751	35,622,751
Net Discounts and Premiums	(137,544)		(137,544)
Total	$ 28,167,456	$ 7,317,751	$ 35,485,207

Installment Purchases Payable. The University has entered into an installment purchase agreement for the purchase of equipment reported at $439,035. The stated interest rate was 1.8 percent. Future minimum payments remaining under the installment purchase agreement and the present value of the minimum payments as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	Amount
2015	$ 75,129
Less, Amount Representing Interest	398
Present Value of Minimum Payments	$ 74,731

Capital Leases Payable. The University has entered into capital lease agreements for equipment in the amount of $228,037. The imputed interest rates ranged from zero percent to 10.2 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	Amount
2015	$ 55,723
2016	45,852
2017	35,981
2018	35,981
Total Minimum Payments	173,537
Less, Amount Representing Interest	17,285
Present Value of Minimum Payments	$ 156,252

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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, 2014, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled $69,561,459. The current portion of the compensated absences liability, $5,963,383, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

Federal Advance Payable. 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 $4,371,552.

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 2013-14 fiscal year, 944 retirees received postemployment healthcare benefits. The University provided required contributions of $3,971,000 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 $5,605,000, which represents 1.2 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

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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:

Description	Amount
Normal Cost (Service Cost for One Year)	$ 12,338,000
Amortization of Unfunded Actuarial Accrued Liability	8,246,000
Interest on Normal Cost and Amortization	823,000
Annual Required Contribution	21,407,000
Interest on Net OPEB Obligation	2,261,000
Adjustment to Annual Required Contribution	(1,960,000)
Annual OPEB Cost (Expense)	21,708,000
Contribution Toward the OPEB Cost	(3,971,000)
Increase in Net OPEB Obligation	17,737,000
Net OPEB Obligation, Beginning of Year	57,446,000
Net OPEB Obligation, End of Year	$ 75,183,000

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, 2014, and for the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	$ 19,603,000	18.8%	$ 40,927,000
2012-13	20,735,000	20.3%	57,446,000
2013-14	21,708,000	18.3%	75,183,000

Funded Status and Funding Progress. As of July 1, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $247,391,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $247,391,000, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $482,063,719 for the 2013-14 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 51.3 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,

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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, 2013, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2014, and the University's 2013-14 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 7.4 percent, 7 percent, and 8.2 percent for the first three years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 3.9 percent, 7.8 percent, and 8.3 percent for the first three years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates both grade down to an ultimate rate of 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, 2014, was 23 years.

10. CERTIFICATES OF PARTICIPATION – COMPONENT UNITS

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

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leased by the Foundation to the University Board of Trustees pursuant to a Master Operating Lease dated as of March 1, 2003, as amended by the First Amendment to Master Operating Lease dated December 1, 2005, each by and between the Foundation, as lessor, and the University Board, as lessee.

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

Certificates of Participation Series 2005A and 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, which were largely hedged to limit the effect of changes in interest rates, 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. In connection with this refunding, the Financing Corporation cancelled the municipal bond insurance policy for the Series 2005B Certificates. The 2012A Refunding Certificates have interest rates ranging from 0.77 to 3.87 percent and mature in 2035.

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

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related to the issuance and sale of the Series 2005C Certificates including the financial guaranty insurance policy premium. The Series 2005C fixed rate Certificates have interest rates ranging from 4 to 5 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 2013A (refunded Series 2006A Certificates). 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 were hedged to limit the effect of changes in interest rates.

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

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interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and re-let properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

To provide credit enhancement for the Series 2006A Certificates, a counterparty 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 was 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 agreed 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 were scheduled to expire on March 17, 2014.

On September 3, 2013, the Series 2006A Certificates were redeemed with equal par amount proceeds from the issuance of the Series 2013A 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, 2014. The Series 2013A Certificates have an interest rate of 4.23 percent and mature in 2036.

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 Series 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), were hedged to limit the effect of changes in interest rates.

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 re-let 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 2012B Refunding Certificates have an interest rate of 4.35 percent and mature in 2037.

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Certificates of Participation 2013B (refunded Series 2007 Certificates - Health). On November 19, 2007, the USF Financing Corporation issued $22,830,000 Certificates of Participation Series 2007 (Health). The proceeds derived from the issuance of the certificates were used to: (1) provide funds for the purpose of financing the acquisition, construction, installation and equipping of a medical office building located on the University's Tampa Campus; (2) fund a Capitalized Interest Account; and (3) pay certain expenses related to the issuance and sale of the 2007 Certificates. The Series 2007 variable rate Certificates (Health) were hedged to limit the effect of changes in interest rates.

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 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 was 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 agreed 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 was scheduled to expire on March 17, 2014.

On September 3, 2013, the Series 2007 Health Certificates were redeemed with equal par amount proceeds from the issuance of the Series 2013B 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, 2014. The Series 2013B Certificates have an interest rate of 4.25 percent and mature in 2037.

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

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the gross interest rate which is 8.348 and 8.548 percent. The Series 2010A Certificates mature in 2020 and the Series 2010B Certificates mature from 2021 to 2040.

The Series 2010A and 2010B Certificates were issued pursuant to a Master Trust Agreement dated as of May 1, 2005, as supplemented by the Series 2010 Supplemental Trust Agreement, dated December 1, 2010, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. For the Series 2010A and 2010B Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated as of December 1, 2010, with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the Series 2010 Projects are located. All of the rights, title, and interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and re-let property; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

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

Principal and Interest Payments. Principal and interest payment requirements on all of the Certificates of Participation outstanding as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2015	$ 8,870,000	$ 13,555,809	$ 22,425,809
2016	9,200,000	13,173,606	22,373,606
2017	9,600,000	12,755,826	22,355,826
2018	10,040,000	12,341,856	22,381,856
2019	10,420,000	11,913,126	22,333,126
2020-2024	58,115,000	52,135,928	110,250,928
2025-2029	66,190,000	38,674,331	104,864,331
2030-2034	80,790,000	22,852,495	103,642,495
2035-2039	56,050,000	5,512,350	61,562,350
2040	2,340,000	202,588	2,542,588
Subtotal	311,615,000	183,117,915	494,732,915
Add, Net Discounts and Premiums	664,086		664,086
Total	$ 312,279,086	$ 183,117,915	$ 495,397,001

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 $76,175,000 of the

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total $88,425,000 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 2013A Certificates (refunded 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 $41,650,000 principal in variable rate Series 2013A Certificates (refunded 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 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 $67,275,000 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 2013B Certificates (refunded Series 2007 Certificates (Health)). The initial notional amount of the interest rate swap agreement is $22,830,000. The effect of the agreement is to limit the interest expense to 3.397 percent on the total $20,855,000 principal in the variable Series 2013B Certificates (refunded 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

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negative valuation exposure in excess of the $10 million minimum threshold level. As of June 30, 2014, the posted collateral was $6,970,000.

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 $21,590,640, which represents the amount to be paid to terminate the agreements at the reporting date.

As of June 30 2014, the USF Financing Corporation was not exposed to credit risk on its outstanding interest rate swap agreements because the agreements had a negative fair value. However, should interest rates change and the fair value of the swap agreements become positive, the USF Financing Corporation would be exposed to credit risk in the amount of the derivative's fair value.

The USF Financing Corporation is exposed to the risk (basis risk) that a mismatch occurs between the interest cost of the underlying variable rate certificates and the variable rate payment received on the associated interest rate swap agreement. The USF Financing Corporation mitigates 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.

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

11. RETIREMENT 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

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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 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 2013-14 fiscal year were as follows:

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Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	6.95
Florida Retirement System, Senior Management Service	3.00	18.31
Florida Retirement System, Special Risk	3.00	19.06
Florida Retirement System, Plan E	6.25	11.44
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.84
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.20 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 or plan 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, 2012, June 30, 2013, and June 30, 2014, totaled $11,357,205, $11,699,049, and $15,440,866, respectively, which were equal to the required contributions for each fiscal year.

There were 1,090 University participants in the Investment Plan during the 2013-14 fiscal year. The University's contributions including employee contributions to the Investment Plan totaled $4,647,019, which was equal to the required contribution for the 2013-14 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' Web site (www.myfloridacfo.com). 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 Division of Retirement's Web site (www.frs.myflorida.com).

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, 7.34 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

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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 3,212 University participants during the 2013-14 fiscal year. The University's contributions to the Program totaled $18,329,230 and employee contributions totaled $13,765,366 for the 2013-14 fiscal year.

12. CONSTRUCTION COMMITMENTS

The University's construction commitments at June 30, 2014, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
USF Health Heart Institute	$ 19,393,118	$ 1,503,333	$ 17,889,785
USF St. Petersburg College of Business	5,000,000	10,034	4,989,966
USF Health Student Wellness Center	4,695,337		4,695,337
Subtotal	29,088,455	1,513,367	27,575,088
Other Projects (1)	35,404,240	11,809,463	23,594,777
Total	$ 64,492,695	$ 13,322,830	$ 51,169,865

Note: (1) Individual projects with current balance commited of less than $4 million at June 30, 2014.

13. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2013-14 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 through February 15, 2014, and increased to $54 million starting February 16, 2014. 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.

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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 $10 million for all payments made on claims arising during the fiscal year. Losses in excess of the individual and aggregate amounts, up to $15 million, are insured commercially. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The Program's estimated liability for unpaid claims at fiscal year-end is the result of both management and actuarial analyses and includes an amount for claims that have been incurred but not reported. Changes in the Program's claim liability amount for the fiscal years ended June 30, 2013, and June 30, 2014, 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
2012-13	$ 18,367,327	$ 505,445	$ (833,814)	$ 18,038,958
2013-14	18,038,958	2,419,350	(1,447,898)	19,010,410

14. LITIGATION

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

15. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of academic departments for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are

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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	$ 321,002,354
Research	248,122,533
Public Services	5,805,275
Academic Support	107,732,639
Student Services	44,592,003
Institutional Support	81,096,724
Operation and Maintenance of Plant	46,010,641
Scholarships, Fellowships, and Waivers	83,626,791
Depreciation	50,688,542
Auxiliary Enterprises	137,088,304
Loan Operations	118,519
Total Operating Expenses	**$ 1,125,884,325**

16. SEGMENT INFORMATION

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

Condensed Statement of Net Position

	Parking Facility Capital Improvement Debt
Assets	
Current Assets	$ 11,241,367
Capital Assets, Net	41,650,051
Other Noncurrent Assets	8,979,956
Total Assets	61,871,374
Liabilities	
Current Liabilities	2,456,768
Noncurrent Liabilities	25,066,881
Total Liabilities	27,523,649
Net Position	
Net Investment in Capital Assets	15,032,009
Restricted - Expendable	10,313,725
Unrestricted	9,001,991
Total Net Position	$ 34,347,725

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

	Parking Facility Capital Improvement Debt
Operating Revenues	$ 13,678,761
Depreciation Expense	(1,547,728)
Other Operating Expenses	(8,576,268)
Operating Income	3,554,765
Nonoperating Revenues (Expenses):	
Nonoperating Revenue	103,824
Interest Expense	(1,284,847)
Other Nonoperating Expense	(179,340)
Net Nonoperating Expenses	(1,360,363)
Increase in Net Position	2,194,402
Net Position, Beginning of Year	32,153,323
Net Position, End of Year	$ 34,347,725

Condensed Statement of Cash Flows

	Parking Facility Capital Improvement Debt
Net Cash Provided (Used) by:	
Operating Activities	$ 5,058,618
Capital and Related Financing Activities	(3,883,469)
Investing Activities	(961,179)
Net Increase in Cash and Cash Equivalents	213,970
Cash and Cash Equivalents, Beginning of Year	3,084,635
Cash and Cash Equivalents, End of Year	$ 3,298,605

17. DEFICIT NET POSITION – COMPONENT UNITS

The University's direct-support organization, Sun Dome, Inc., had a deficit net position of $157,770 at June 30, 2014. This deficit balance can be attributed primarily to the commencement of contributions to the debt service coverage on a loan through the USF Financing Corporation (USFFC) related to Sun Dome arena renovations. The 2013-14 fiscal year contribution from Sun Dome, Inc. for the debt coverage was $300,233. To offset the annual contributions for debt service coverage that will be provided to USFFC in future years, Sun Dome, Inc. has developed a marketing and sales plan to drive revenue through increased arena ticket sales.

The University's direct-support organization, USFFC, had a deficit net position of $204,991 at June 30, 2014. 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

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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. 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, 2014, which were equal to $457,632.

18. 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:				
Current Assets	$ 6,751,165	$ 660,436,596	$	$ 667,187,761
Capital Assets, Net	64,216	798,753,743		798,817,959
Other Noncurrent Assets	40,245,010	8,305,361		48,550,371
Total Assets	47,060,391	1,467,495,700		1,514,556,091
Liabilities:				
Current Liabilities	2,251,801	152,170,227		154,422,028
Noncurrent Liabilities	16,814,533	168,429,883		185,244,416
Total Liabilities	19,066,334	320,600,110		339,666,444
Net Position:				
Net Investment in Capital Assets	64,216	740,543,027		740,607,243
Restricted - Expendable	27,929,841	101,979,924		129,909,765
Unrestricted		304,372,639		304,372,639
Total Net Position	$ 27,994,057	$ 1,146,895,590	$	$ 1,174,889,647

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

	Medical Professional Liability Self-Insurance Program	University	Eliminations	Total Primary Government
Operating Revenues	$ 7,014,717	$ 709,717,464	$ (429,125)	$ 716,303,056
Depreciation Expense	(6,400)	(50,682,142)		(50,688,542)
Other Operating Expenses	(4,836,031)	(1,070,788,877)	429,125	(1,075,195,783)
Operating Income (Loss)	2,172,286	(411,753,555)		(409,581,269)
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	3,053,676	474,551,445		477,605,121
Interest Expense		(1,417,389)		(1,417,389)
Other Nonoperating Expense		(39,508,838)		(39,508,838)
Net Nonoperating Revenues	3,053,676	433,625,218		436,678,894
Other Revenues, Expenses, Gains, and Losses		28,467,825		28,467,825
Increase in Net Position	5,225,962	50,339,488		55,565,450
Net Position, Beginning of Year	22,768,095	1,096,556,102		1,119,324,197
Net Position, End of Year	$ 27,994,057	$ 1,146,895,590	$	$ 1,174,889,647

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Condensed Statement of Cash Flows

	Medical Professional Liability Self-Insurance Program	University	Eliminations	Total Primary Government
Net Cash Provided (Used) by:				
Operating Activities	$ 3,955,125	$ (331,177,883)	$	$ (327,222,758)
Noncapital Financing Activities		404,455,563		404,455,563
Capital and Related Financing Activities	(3,205)	3,701,032		3,697,827
Investing Activities	(2,765,123)	(91,099,688)		(93,864,811)
Net Increase (Decrease) in Cash and Cash Equivalents	1,186,797	(14,120,976)		(12,934,179)
Cash and Cash Equivalents, Beginning of Year	1,336,524	59,570,448		60,906,972
Cash and Cash Equivalents, End of Year	$ 2,523,321	$ 45,449,472	$	$ 47,972,793

19. DISCRETELY PRESENTED COMPONENT UNITS

The University has nine discretely presented component units as discussed in note 1. These component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is 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, 2014

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	$ 106,766,807	$ 943,233	$ 3,638,036	$ 8,385,678	$ 1,070,738	$ 11,721,015	$ 56,383,098	$ 188,908,605	$ 79,648,551	$ 268,557,156
Capital Assets, Net	4,278,851		7,193,401	3,623,080	1,097,770	50,512,903	318,777,700	385,483,705	3,183,496	388,667,201
Other Noncurrent Assets	437,072,200	5,020,146	14,423	17,464		29,370,854	24,550,192	496,045,279	188,094	496,233,373
Total Assets	548,117,858	5,963,379	10,845,860	12,026,222	2,168,508	91,604,772	399,710,990	1,070,437,589	83,020,141	1,153,457,730
Deferred Outflows of Resources:										
Interest Rate Swap Agreement						2,936,960		2,936,960		2,936,960
Liabilities:										
Current Liabilities	7,403,300	1,872,855	6,695,803	5,880,512	1,507,308	9,283,327	17,109,165	49,752,270	11,215,902	60,968,172
Noncurrent Liabilities			2,430,185	382,002	818,970	36,171,960	382,806,816	422,609,933	53,762	422,663,695
Total Liabilities	7,403,300	1,872,855	9,125,988	6,262,514	2,326,278	45,455,287	399,915,981	472,362,203	11,269,664	483,631,867
Net Position:										
Net Investment in Capital Assets	4,278,851		3,455,198	3,170,707	158,800	16,739,569		27,803,125	3,183,496	30,986,621
Restricted	531,252,048	885,759	280,982					532,418,789		532,418,789
Unrestricted	5,183,659	3,204,765	(2,016,308)	2,593,001	(316,570)	32,346,876	(204,991)	40,790,432	68,566,981	109,357,413
Total Net Position	$ 540,714,558	$ 4,090,524	$ 1,719,872	$ 5,763,708	$ (157,770)	$ 49,086,445	$ (204,991)	$ 601,012,346	$ 71,750,477	$ 672,762,823

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, 2014

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	$ 144,521,333	$ 2,449,230	$ 20,445,006	$ 66,557,993	$ 6,734,261	$ 11,512,066	$ 50,948,001	$ 303,167,890	$ 198,388,624	$ 501,556,514
Operating Expenses	(179,189,792)	(2,296,783)	(19,837,123)	(60,200,658)	(6,668,679)	(8,644,796)	(30,692,374)	(307,530,205)	(197,603,104)	(505,133,309)
Operating Income (Loss)	(34,668,459)	152,447	607,883	6,357,335	65,582	2,867,270	20,255,627	(4,362,315)	785,520	(3,576,795)
Net Nonoperating Revenues (Expenses)	74,868,148	714,707	(1,197,349)	1,661,765	(310,675)	1,924,426	(20,214,149)	57,446,873	(2,078,296)	55,368,577
Increase (Decrease) in Net Position	40,199,689	867,154	(589,466)	8,019,100	(245,093)	4,791,696	41,478	53,084,558	(1,292,776)	51,791,782
Net Position, Beginning 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
Net Position, End of Year	$ 540,714,558	$ 4,090,524	$ 1,719,872	$ 5,763,708	$ (157,770)	$ 49,086,445	$ (204,991)	$ 601,012,346	$ 71,750,477	$ 672,762,823

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

20. CURRENT UNRESTRICTED FUNDS

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

Statement of Current Unrestricted Funds Net Position

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 39,471,191
Investments	425,173,410
Receivables, Net	14,111,670
Due from Component Units	2,910,095
Inventories	884,628
Other Current Assets	139,156
Total Assets	482,690,150
Liabilities	
Current Liabilities:	
Accounts Payable	5,923,496
Salaries and Wages Payable	20,166,508
Deposits Payable	2,325,152
Unearned Revenue	6,043,475
Compensated Absences Payable	5,077,804
Total Current Liabilities	39,536,435
Noncurrent Liabilities:	
Compensated Absences Payable	63,598,076
Other Postemployment Benefits Payable	75,183,000
Total Liabilities	178,317,511
Total Net Position	$ 304,372,639

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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

Revenues	
Operating Revenues:	
Student Tuition and Fees (1) ($3,080,758 Pledged for Capital Improvement Parking Revenue Bonds)	$ 340,376,161
Sales and Services of Auxiliary Enterprises ($12,056,494 Pledged for Capital Improvement Parking and Bookstore Revenue Bonds)	110,848,604
Other Operating Revenues	4,322,375
Total Operating Revenues	455,547,140
Expenses	
Operating Expenses:	
Compensation and Employee Benefits	540,856,495
Services and Supplies	134,835,368
Utilities	24,552,384
Scholarships and Fellowships	58,708,508
Total Operating Expenses	758,952,755
Operating Loss	(303,405,615)
Nonoperating Revenues (Expenses)	
State Noncapital Appropriations	322,514,490
Noncapital Grants and Donations	2,045,439
Investment Income	22,829,411
Other Nonoperating Revenues	52,135
Other Nonoperating Expenses	(26,496,841)
Net Nonoperating Revenues	320,944,634
Income Before Other Revenues, Expenses, Gains, or Losses	17,539,019
Required Transfers to Other SUS Universities	(10,674,286)
Transfers to/from Other Funds	37,715,670
Increase in Net Position	44,580,403
Net Position, Beginning of Year	259,792,236
Net Position, End of Year	$ 304,372,639

Note: (1) Student tuition and fees revenues are reported net of scholarship allowances on the statement of revenues, expenses, and changes in net position; however, scholarship allowances are not reflected in the student tuition and fees revenue for the purposes of this disclosure.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

21. SUBSEQUENT EVENTS

On August 9, 2014, the USFFC concluded negotiations with the counterparty and amended the interest rate swap agreement related to the Certificates of Participation Series 2007 Health Certificates to reflect the refunding of the Series 2007 Health Certificates with the issuance of the Certificates of Participation Series 2013B. The collateral provisions of the amended agreement require USFFC to post cash or securities collateral totaling $1,000,000. The USFFC posted the $1,000,000 in cash with the counterparty's custodian on September 4, 2014.

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]
7/1/2009	$	$ 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%
7/1/2013		247,391,000	247,391,000	0%	482,063,719	51.3%

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, 2013, unfunded actuarial accrued liability of $247,391,000 was higher than the July 1, 2011, liability of $230,266,000 primarily as a result of a lower than expected increase in retiree contribution rates, an implicit subsidy resulting from less than the full cost of coverage now being paid by participants in four HMO plans, changes in demographic data and assumptions, and certain trend assumptions.

AUDITOR GENERAL
STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON 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, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 12, 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*.

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
November 12, 2014