

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2017-077
December 2016

UNIVERSITY OF SOUTH FLORIDA

For the Fiscal Year Ended
June 30, 2016



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2015-16 fiscal year, Dr. Judy L. Genshaft served as President of the University of South Florida and the following individuals served as Members of the Board of Trustees:

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Jordan B. Zimmerman, Vice Chair from 6-2-16	John B. Ramil
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Michael Carrere from 3-30-16	Byron E. Shinn
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Stephanie E. Goforth	Dr. Gregory B. Teague ^b
Christopher Griffin ^a from 6-2-16	Nancy H. Watkins
Scott L. Hopes	

^a Student Body President.

^b System faculty council president (equivalent to faculty senate chair referred to in Section 1001.71(1), Florida Statutes).

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

The team leader was Elba M. Guzik, CPA, and the supervisor was Karen J. Collington, CPA.

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

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UNIVERSITY OF SOUTH FLORIDA
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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

AUDIT OBJECTIVES AND SCOPE

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

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

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2016. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

AUDIT METHODOLOGY

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.



Sherrill F. Norman, CPA
Auditor General

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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, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the blended and aggregate discretely presented component units. The financial statements of the Medical Professional Liability Self-Insurance Program, a blended component unit, represent 3 percent, 2.7 percent, and 0.5 percent, respectively, of the assets, net position, and revenues, reported for the University of South Florida. The financial statements of the aggregate discretely presented component units represent 100 percent of the transactions and account balances of the discretely presented component units' columns. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended and aggregate discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those

standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University of South Florida Health Sciences Center Insurance Co., Inc. included within the Medical Professional Liability Self-Insurance Program, a blended component unit, were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of South Florida and of its aggregate discretely presented component units as of June 30, 2016, 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, Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan, Schedule of University Contributions – Florida Retirement System Pension Plan, Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan, Schedule of University Contributions – Health Insurance Subsidy Pension Plan, and Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other

knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2016, on our consideration of the University of South Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of South Florida's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
December 16, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2016, 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, 2016, and June 30, 2015.

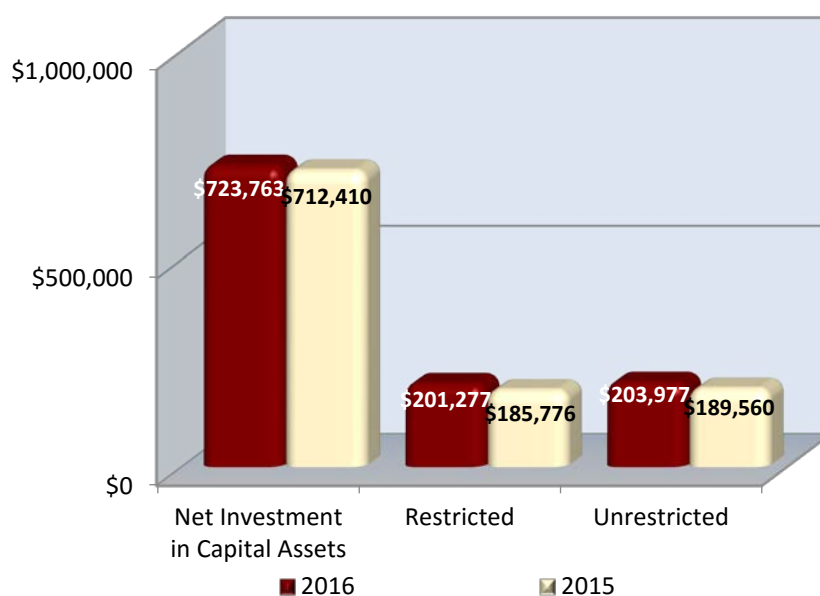
FINANCIAL HIGHLIGHTS

The University's assets and deferred outflows of resources totaled \$1.8 billion at June 30, 2016. This balance reflects a \$91.8 million, or 5.5 percent, increase as compared to the 2014-15 fiscal year. Liabilities and deferred inflows of resources increased by \$50.5 million, or 8.6 percent, totaling \$637.7 million at June 30, 2016, as compared to \$587.2 million at June 30, 2015. As a result, the University's net position increased by \$41.3 million, resulting in a year-end balance of \$1.1 billion.

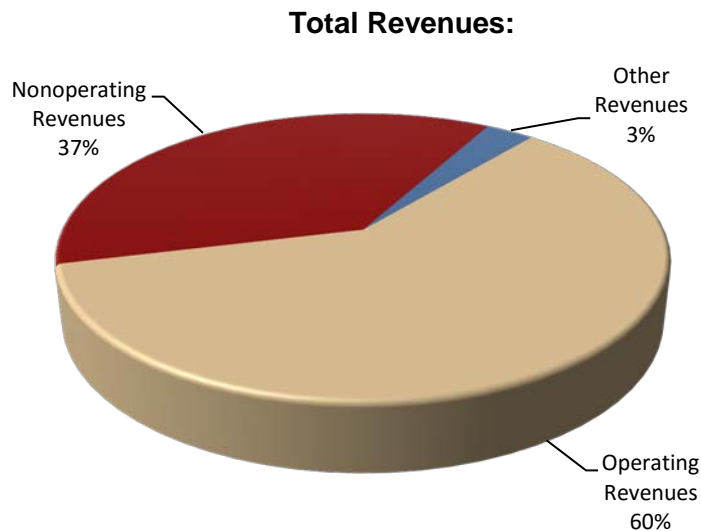
The University's operating revenues totaled \$815.7 million for the 2015-16 fiscal year, representing a 7.9 percent increase compared to the 2014-15 fiscal year due mainly to increases in student tuition and fees and grants and contracts. Operating expenses totaled \$1.3 billion for the 2015-16 fiscal year, representing an increase of 6.3 percent over the 2014-15 fiscal year due mainly to an increase in compensation and employee benefits and services and supplies.

Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University's comparative total net position by category for the fiscal years ended June 30, 2016, and June 30, 2015, is shown in the following graph:

Net Position:
(In Thousands)



The following chart provides a graphical presentation of University revenues by category for the 2015-16 fiscal year:



OVERVIEW OF FINANCIAL STATEMENTS

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

- Blended Component Unit:
 - Medical Professional Liability Self-Insurance Program
- Discretely Presented Component Units:
 - 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
 - USF Property 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, deferred outflows of resources, liabilities, and deferred inflows of resources of the University, using the accrual basis of accounting, and presents the financial position of the University at a specified time. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, which is one indicator of the University's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the University's financial condition.

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

Condensed Statement of Net Position at June 30

(In Thousands)

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets	\$ 786,001	\$ 719,707
Capital Assets, Net	845,684	836,702
Other Noncurrent Assets	<u>61,980</u>	<u>63,616</u>
Total Assets	<u>1,693,665</u>	<u>1,620,025</u>
Deferred Outflows of Resources	<u>73,082</u>	<u>54,883</u>
Liabilities		
Current Liabilities	209,844	202,789
Noncurrent Liabilities	<u>401,971</u>	<u>308,532</u>
Total Liabilities	<u>611,815</u>	<u>511,321</u>
Deferred Inflows of Resources	<u>25,915</u>	<u>75,841</u>
Net Position		
Net Investment in Capital Assets	723,763	712,410
Restricted	201,277	185,776
Unrestricted	<u>203,977</u>	<u>189,560</u>
Total Net Position	<u>\$ 1,129,017</u>	<u>\$ 1,087,746</u>

Current cash and investments for the University increased a total of \$49.3 million between the two fiscal years primarily as a result of increases in student tuition and fee revenue, State appropriations, and auxiliary operations.

Total liabilities increased \$100.5 million. Major components of this increase include an increase in other postemployment benefits (OPEB) payable of 26.7 million, due to actuarial estimates, and an increase in the GASB Statement No. 68 net pension liability of \$64.4 million.

Deferred inflows of resources decreased \$49.9 million relating to pension activity.

Net position is reported in three major categories. The first category, net investment in capital assets, provides the University's equity in property, plant, and equipment owned by the University. Restricted

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

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

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

The following summarizes the University's activity for the 2015-16 and 2014-15 fiscal years:

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

	<u>2015-16</u>	<u>2014-15</u>
Operating Revenues	\$ 815,705	\$ 755,956
Less, Operating Expenses	<u>1,268,746</u>	<u>1,193,729</u>
Operating Loss	(453,041)	(437,773)
Net Nonoperating Revenues	<u>452,962</u>	<u>439,287</u>
Income (Loss) Before Other Revenues	(79)	1,514
Other Revenues	<u>41,350</u>	<u>47,071</u>
Net Increase In Net Position	<u>41,271</u>	<u>48,585</u>
Net Position, Beginning of Year	1,087,746	1,174,890
Adjustment to Beginning Net Position (1)	<u>-</u>	<u>(135,729)</u>
Net Position, Beginning of Year, as Restated	<u>1,087,746</u>	<u>1,039,161</u>
Net Position, End of Year	<u><u>\$ 1,129,017</u></u>	<u><u>\$ 1,087,746</u></u>

Note: (1) For the 2014-15 fiscal year, the University's beginning net position was decreased in conjunction with the implementation of GASB Statement No. 68.

Operating Revenues

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

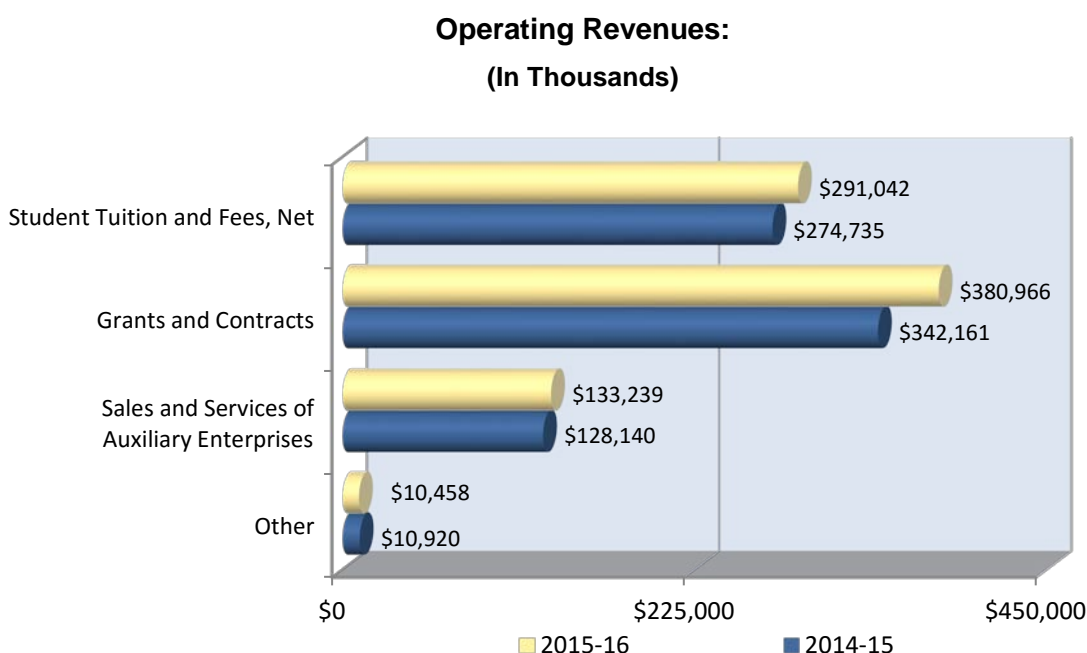
The following summarizes the operating revenues by source that were used to fund operating activities for the 2015-16 and 2014-15 fiscal years:

Operating Revenues For the Fiscal Years

(In Thousands)

	2015-16	2014-15
Student Tuition and Fees, Net	\$ 291,042	\$ 274,735
Grants and Contracts	380,966	342,161
Sales and Services of Auxiliary Enterprises	133,239	128,140
Other	10,458	10,920
Total Operating Revenues	\$ 815,705	\$ 755,956

The following chart presents the University's operating revenues for the 2015-16 and 2014-15 fiscal years:



University operating revenues increased by \$59.7 million, or 7.9 percent. This is primarily attributed to a \$38.8 million increase in grants and contracts revenues due to grants and contracts from Federal and nongovernmental funding.

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.

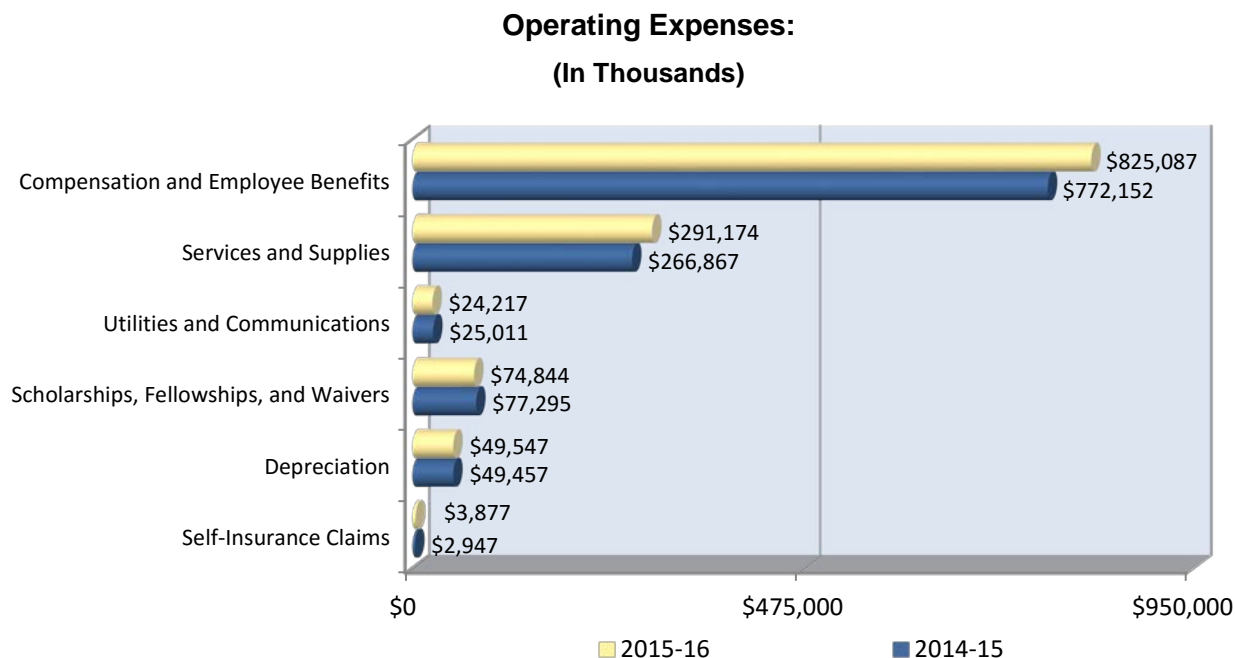
The following summarizes operating expenses by natural classification for the 2015-16 and 2014-15 fiscal years:

Operating Expenses For the Fiscal Years

(In Thousands)

	2015-16	2014-15
Compensation and Employee Benefits	\$ 825,087	\$ 772,152
Services and Supplies	291,174	266,867
Utilities and Communications	24,217	25,011
Scholarships, Fellowships, and Waivers	74,844	77,295
Depreciation	49,547	49,457
Self-Insurance Claims	3,877	2,947
Total Operating Expenses	\$1,268,746	\$1,193,729

The following chart presents the University's operating expenses for the 2015-16 and 2014-15 fiscal years:



Total operating expenses increased by \$75 million, resulting primarily from a \$52.9 million increase in compensation and employee benefits and a \$24.3 million increase in services and supplies. The increase in compensation and employee benefits was primarily due to expenses associated with salary and health care benefit increases, as well as increases in the accrual for compensated absences, pension expenses and other postemployment benefits. The increase in services and supplies was primarily due to the increases in Federal, State, and nongovernmental grants and contracts expenses.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and

investment income are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2015-16 and 2014-15 fiscal years:

**Nonoperating Revenues (Expenses)
For the Fiscal Years**

(In Thousands)

	<u>2015-16</u>	<u>2014-15</u>
State Noncapital Appropriations	\$368,733	\$352,851
Federal and State Student Financial Aid	94,867	100,562
Noncapital Grants and Donations	24,949	26,897
Investment Income	10,161	6,076
Other Nonoperating Revenues	1,710	319
Loss on Disposal of Capital Assets	(812)	(6,282)
Interest on Capital Asset-Related Debt	(1,129)	(1,373)
Other Nonoperating Expenses	<u>(45,517)</u>	<u>(39,763)</u>
Net Nonoperating Revenues	<u><u>\$452,962</u></u>	<u><u>\$439,287</u></u>

Other Revenues

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2015-16 and 2014-15 fiscal years:

**Other Revenues
For the Fiscal Years**

(In Thousands)

	<u>2015-16</u>	<u>2014-15</u>
State Capital Appropriations	\$ 40,094	\$ 43,842
Capital Grants, Contracts, Donations, and Fees	<u>1,256</u>	<u>3,229</u>
Total	<u><u>\$ 41,350</u></u>	<u><u>\$ 47,071</u></u>

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 2015-16 and 2014-15 fiscal years:

**Condensed Statement of Cash Flows
For the Fiscal Years**

(In Thousands)

	<u>2015-16</u>	<u>2014-15</u>
Cash Provided (Used) by:		
Operating Activities	\$ (366,488)	\$ (372,667)
Noncapital Financing Activities	432,635	452,358
Capital and Related Financing Activities	(28,711)	(39,399)
Investing Activities	<u>(41,882)</u>	<u>(42,159)</u>
Net Decrease in Cash and Cash Equivalents	(4,446)	(1,867)
Cash and Cash Equivalents, Beginning of Year	<u>46,106</u>	<u>47,973</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 41,660</u></u>	<u><u>\$ 46,106</u></u>

Major sources of funds came from State noncapital appropriations (\$368.7 million), Federal Direct Student Loan receipts (\$253.1 million), net student tuition and fees (\$293 million), grants and contracts (\$381.1 million), and sales and services of auxiliary enterprises (\$135.5 million). Major uses of funds were for payments made to and on behalf of employees totaling \$791.8 million; payments to suppliers totaling \$317 million; disbursements to students for Federal Direct Student Loans totaling \$253.1 million.

Cash used by capital and related financing activities decreased by \$10.7 million. This was primarily due to a \$12.3 million increase in cash received from State capital appropriations.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION
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Capital Assets

At June 30, 2016, the University had \$1.5 billion in capital assets, less accumulated depreciation of \$651.3 million, for net capital assets of \$845.7 million. Depreciation charges for the current fiscal year totaled \$49.5 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

**Capital Assets, Net at June 30
For the Fiscal Years**

(In Thousands)

	<u>2016</u>	<u>2015</u>
Land	\$ 16,198	\$ 15,565
Construction in Progress	41,259	20,930
Buildings	687,634	698,300
Infrastructure and Other Improvements	32,806	33,154
Furniture and Equipment	52,727	54,754
Library Resources	9,664	7,890
Property Under Capital Leases	48	171
Works of Art and Historical Treasures	1,330	1,361
Other Capital Assets	<u>4,018</u>	<u>4,577</u>
Capital Assets, Net	<u><u>\$845,684</u></u>	<u><u>\$836,702</u></u>

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

Capital Expenses and Commitments

The University's construction commitments at June 30, 2016, are as follows:

	<u>Amount (In Thousands)</u>
Total Committed	\$ 132,130
Completed to Date	<u>(41,259)</u>
Balance Committed	<u><u>\$ 90,871</u></u>

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

Debt Administration

As of June 30, 2016, the University had \$22.2 million in outstanding capital improvement debt payable, an installment purchase payable, and capital leases payable, representing a decrease of \$3.3 million, or 12.8 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)

	<u>2016</u>	<u>2015</u>
Capital Improvement Debt	\$ 22,109	\$ 25,268
Installment Purchase	83	110
Capital Leases	<u>32</u>	<u>108</u>
Total	<u><u>\$ 22,224</u></u>	<u><u>\$ 25,486</u></u>

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University's economic condition is closely tied to that of the State of Florida. The budget that the Florida Legislature adopted for the 2016-17 fiscal year provided a 5 percent increase to State universities. The budget also incorporated a new designation of "Emerging Preeminence" in performance based funding which positively impacts the University of South Florida. This translated to \$5 million in additional Educational and General Funds for the University. As the first university to achieve the emerging preeminence status, USF is well positioned to continue to benefit from the Legislature and Board of Governors' continued focus on performance-based funding.

In addition to State funding, the University receives a large share of general revenue from other sources including tuition and fees, other auxiliary operations and grants and contracts. This diversification mitigates the impact of individual economic factors.

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, 2016

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 40,783,046	\$ 16,891,907
Investments	574,743,513	115,685,761
Accounts Receivable, Net	75,053,314	82,713,829
Loans and Notes Receivable, Net	2,078,612	-
Due from State	75,022,122	-
Due from University	-	88,224,952
Due from Component Units	15,903,745	3,095,179
Inventories	236,295	-
Other Current Assets	2,179,984	19,743,498
Total Current Assets	786,000,631	326,355,126
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	876,456	1,229,167
Restricted Investments	56,911,006	474,223,691
Loans and Notes Receivable, Net	4,192,757	357,000
Depreciable Capital Assets, Net	785,847,252	297,095,183
Nondepreciable Capital Assets	59,837,220	19,301,143
Other Noncurrent Assets	-	18,703,784
Total Noncurrent Assets	907,664,691	810,909,968
Total Assets	1,693,665,322	1,137,265,094
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	73,081,903	-
Interest Rate Swap Agreement	-	497,068
Total Deferred Outflows of Resources	73,081,903	497,068
LIABILITIES		
Current Liabilities:		
Accounts Payable	22,464,585	9,377,488
Construction Contracts Payable	4,109,233	-
Salary and Wages Payable	28,086,559	11,379,981
Deposits Payable	13,959,353	1,005,062
Due to University	-	15,903,745
Due to Component Units	88,224,952	3,095,179
Unearned Revenue	40,619,946	5,699,533
Long-Term Liabilities - Current Portion:		
Bonds Payable	-	5,005,998
Certificates of Participation Payable	-	7,905,000
Capital Improvement Debt Payable	2,222,370	-
Loans and Notes Payable	-	472,455
Installment Purchase Payable	27,015	493,880
Capital Leases Payable	16,267	678,796
Estimated Insurance Claims Payable	771,083	-
Compensated Absences Payable	6,591,719	-
Net Pension Liability	2,751,108	-
Total Current Liabilities	209,844,190	61,017,117

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

June 30, 2016

	<u>University</u>	<u>Component Units</u>
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	-	118,003,648
Certificates of Participation Payable	-	251,917,685
Capital Improvement Debt Payable	19,886,817	-
Loans and Notes Payable	-	6,063,638
Installment Purchase Payable	55,702	-
Capital Leases Payable	16,268	321,785
Estimated Insurance Claims Payable	20,058,639	-
Compensated Absences Payable	71,705,610	-
Federal Advance Payable	3,216,794	-
Other Noncurrent Liabilities	-	21,690,238
Other Postemployment Benefits Payable	118,976,000	-
Net Pension Liability	168,055,137	-
Total Noncurrent Liabilities	<u>401,970,967</u>	<u>397,996,994</u>
Total Liabilities	<u>611,815,157</u>	<u>459,014,111</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	25,914,593	-
Total Deferred Inflows of Resources	<u>25,914,593</u>	<u>-</u>
NET POSITION		
Net Investment in Capital Assets	723,762,640	28,601,257
Restricted for Nonexpendable:		
Endowment	-	542,640,670
Restricted for Expendable:		
Debt Service	1,737,878	-
Loans	5,780,790	-
Capital Projects	79,812,974	-
Other	113,945,755	-
Unrestricted	203,977,438	107,506,124
TOTAL NET POSITION	<u><u>\$ 1,129,017,475</u></u>	<u><u>\$ 678,748,051</u></u>

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, 2016

	<u>University</u>	<u>Component Units</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$110,795,121 (\$3,186,835 Pledged for the Student Union Revenue Bonds)	\$ 291,042,666	\$ -
Federal Grants and Contracts	193,876,033	-
State and Local Grants and Contracts	25,126,909	-
Nongovernmental Grants and Contracts	161,962,620	62,736,424
Sales and Services of Auxiliary Enterprises (\$10,855,059 Pledged for the Parking System Revenue Bonds)	133,239,293	-
Sales and Services of Component Units	-	238,454,451
Royalties and Licensing Fees	-	2,506,916
Gifts and Donations	-	38,812,997
Interest on Loans and Notes Receivable	177,388	-
Other Operating Revenues	10,280,272	46,869,746
Total Operating Revenues	<u>815,705,181</u>	<u>389,380,534</u>
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	825,087,039	212,593,716
Services and Supplies	291,174,092	145,715,926
Utilities and Communications	24,217,311	1,542,193
Scholarships, Fellowships, and Waivers	74,843,702	8,122,107
Depreciation	49,547,440	15,980,268
Self-Insurance Claims	3,876,519	-
Total Operating Expenses	<u>1,268,746,103</u>	<u>383,954,210</u>
Operating Income (Loss)	<u>(453,040,922)</u>	<u>5,426,324</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	368,733,441	-
Federal and State Student Financial Aid	94,867,168	-
Noncapital Grants and Donations	24,949,129	-
Investment Income	10,161,004	(5,038,807)
Other Nonoperating Revenues	1,710,073	994,983
Loss on Disposal of Capital Assets	(811,709)	-
Interest on Capital Asset-Related Debt	(1,129,506)	(15,326,669)
Other Nonoperating Expenses	(45,517,175)	(12,193,865)
Net Nonoperating Revenues (Expenses)	<u>452,962,425</u>	<u>(31,564,358)</u>
Loss Before Other Revenues	<u>(78,497)</u>	<u>(26,138,034)</u>
State Capital Appropriations	40,094,279	-
Capital Grants, Contracts, Donations, and Fees	1,255,943	-
Increase (Decrease) in Net Position	<u>41,271,725</u>	<u>(26,138,034)</u>
Net Position, Beginning of Year	<u>1,087,745,750</u>	<u>704,886,085</u>
Net Position, End of Year	<u>\$ 1,129,017,475</u>	<u>\$ 678,748,051</u>

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

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

For the Fiscal Year Ended June 30, 2016

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 293,000,721
Grants and Contracts	381,085,199
Sales and Services of Auxiliary Enterprises, Net	135,536,665
Interest on Loans and Notes Receivable	177,818
Payments to Employees	(791,786,077)
Payments to Suppliers for Goods and Services	(317,001,720)
Payments to Students for Scholarships and Fellowships	(74,843,702)
Payments on Self-Insurance Claims and Expenses	(2,477,045)
Loans Issued to Students	(1,182,949)
Collection on Loans to Students	1,307,699
Other Operating Receipts	9,695,425
	<u>(366,487,966)</u>
Net Cash Used by Operating Activities	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	368,733,441
Federal and State Student Financial Aid	94,867,168
Noncapital Grants, Contracts, and Donations	26,010,873
Federal Direct Loan Program Receipts	253,111,708
Federal Direct Loan Program Disbursements	(253,111,708)
Operating Subsidies and Transfers	(12,404,378)
Net Change in Funds Held for Others	(567,041)
Other Nonoperating Receipts	196,752
Other Nonoperating Disbursements	(44,202,270)
	<u>432,634,545</u>
Net Cash Provided by Noncapital Financing Activities	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	31,708,040
Capital Grants, Contracts, Donations, and Fees	21,084
Purchase or Construction of Capital Assets	(56,048,580)
Principal Paid on Capital Debt and Leases	(3,267,882)
Interest Paid on Capital Debt and Leases	(1,123,264)
	<u>(28,710,602)</u>
Net Cash Used by Capital and Related Financing Activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	26,258,530
Purchases of Investments	(84,000,000)
Investment Income	15,859,065
	<u>(41,882,405)</u>
Net Cash Used by Investing Activities	
Net Decrease in Cash and Cash Equivalents	(4,446,428)
Cash and Cash Equivalents, Beginning of Year	46,105,930
Cash and Cash Equivalents, End of Year	<u>\$ 41,659,502</u>

University of South Florida
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2016

	<u>University</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (453,040,922)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	49,547,440
Changes in Assets, Liabilities, Deferred Outflows of Resources,	
and Deferred Inflows of Resources:	
Receivables, Net	(373,316)
Loans and Notes Receivable, Net	124,750
Inventories	3,350
Other Assets	(1,353,305)
Accounts Payable	(776,915)
Salaries and Wages Payable	6,339,776
Deposits Payable	(1,492,344)
Unearned Revenue	6,207,829
Estimated Insurance Claims Payable	1,399,474
Compensated Absences Payable	3,878,862
Other Postemployment Benefits Payable	26,745,000
Net Pension Liability	64,427,968
Deferred Outflows of Resources Related to Pensions	(18,198,991)
Deferred Inflows of Resources Related to Pensions	(49,926,622)
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (366,487,966)</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND	
CAPITAL FINANCING ACTIVITIES	
The fair value of Keys Marine Lab capital assets transferred to the Florida Institute	
of Oceanography were recognized on the statement of net position, but are not	
cash transactions for the statement of cash flows.	\$ 1,571,096
Unrealized losses on investments were recognized as a reduction to investment	
income on the statement of revenues, expenses, and changes in net position, but	
are not cash transactions for the statement of cash flows.	\$ (5,698,061)
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.	\$ (811,709)
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.	\$ 1,234,859

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of 5 years. The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations, and selecting the University President. The University President serves as the executive officer and the corporate secretary of the Trustees, and is responsible for administering the policies prescribed by the Trustees.

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

Blended Component Unit. Based on the application of the criteria for determining component units, the Medical Professional Liability Self-Insurance Program is included within the University's reporting entity as a blended component unit. The Medical Professional Liability Self-Insurance Program was created in 1972 and provides medical professional liability covering the USF Board of Trustees and faculty, staff, and students engaged in medical programs at the University. Condensed financial statements for the University's blended component unit are shown in a subsequent note.

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

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

support services and are governed by separate boards. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- The University of South Florida Foundation, Inc. accepts, invests, administers, and distributes private gifts given for the funding of activities and facilities directly related to the mission, role, and scope of the University of South Florida.
- The University of South Florida Alumni Association, Inc. fosters the spirit of loyalty and fraternity among the graduates, former students, and friends of the University, and promotes their continued active interest in and on behalf of the University.
- The Sun Dome, Inc. operates a multi-purpose facility on behalf of the University of South Florida to provide the students, faculty, and staff of the University, as well as the general public, an array of cultural, athletic, and other educational events and activities, including a variety of entertainment events.
- The University of South Florida Research Foundation, Inc. has been established to provide a means by which inventions and works may be developed, protected, applied, and utilized so that the results of University research will be made available to the public and funds will be made available from the commercial application of inventions and works to be dedicated to the benefit of the University and shared with the inventor/author.
- The USF Financing Corporation was organized and operated to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University of South Florida.
- The USF Property Corporation was formed for the primary purpose of acting as lessor in connection with “lease-purchase” financings in support of the activities and educational purposes of the University of South Florida and of the USF Financing Corporation by assisting in acquiring facilities and constructing facilities on the University campus and in general, furthering the University’s education mission.
- The USF Health Professions Conferencing Corporation was established to provide educational, administrative, logistical, and financial services to support the USF Health’s Office of Continuing Professional Development (OCPD). The OCPD is committed to sponsoring quality continuing educational activities to meet the needs of USF faculty, alumni, and healthcare professionals practicing throughout the State, nationally, and internationally.
- The University Medical Service Association, Inc. (“UMSA”) is approved as the USF Health Faculty Practice Plan (the “Plan”) pursuant to Florida Board of Governors Regulation 9.017 and USF Regulation 9.017. UMSA specifically functions as the University’s agent for the orderly collection and administration of income generated from University faculty practice in accordance with the Plan, and employs and provides personnel to support the USF Health clinical enterprise and mission.
- The University of South Florida Medical Services Support Corporation (“MSSC”) is organized and operated exclusively to receive, hold, invest and administer property and to make expenditures to or for the benefit of the University. At the September 16, 2015 Board meeting, the Board approved the transition of MSSC’s operations to UMSA over the course of the 2015-16 fiscal year. MSSC will continue to be a direct-support organization of the University, but it will have no operations when the transition is completed.

Basis of Presentation. The University’s accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO)

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

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

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

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

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

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation on capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, 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 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 acquisition value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$5,000 for tangible personal property and \$100,000 for new buildings and other building improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 10 to 40 years, depending on construction
- Infrastructure and Other Improvements – 20 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Property Under Capital Leases – 7 to 10 years
- Other Capital Assets – 3 to 20 years
- Works of Art and Historical Treasures – 5 years

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable, installment purchase payable, capital leases payable, estimated insurance claims payable, compensated absences payable, Federal advance payable, other postemployment benefits payable, and net pension liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of

unamortized premium or discount. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method.

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

2. Investments

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

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

The University's recurring fair value measurements as of June 30, 2016 are valued using the following valuation techniques and inputs:

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

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

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

The University's investments at June 30, 2016, are reported as follows:

Investments by fair value level	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
United States Treasury Securities	\$ 10,661,965	\$ -	\$ 10,661,965	\$ -
Obligations of United States Government Agencies and Instrumentalities	1,074,856	-	1,074,856	-
Repurchase Agreements	52,528,358	-	52,528,358	-
Bonds and Notes	18,865,582	-	18,865,582	-
Stocks and Other Equity Securities	12,125,929	12,125,929	-	-
Total investments by fair value level	\$ 95,256,690	\$ 12,125,929	\$ 83,130,761	\$ -
Investments measured at the net asset value (NAV)				
Hedge Funds	25,475,887			
Mutual Funds:				
Equities	100,929,943			
Bonds	408,816,478			
Money Market	1,175,521			
Total investments measured at NAV	536,397,829			
Total investments measured at fair value	\$631,654,519			

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

Investments measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Hedge Funds	\$ 25,475,887	\$ -	Annually	95 days
Mutual Funds:				
Equities	100,929,943	-	Daily	0-7 days
Bonds	408,816,478	-	Daily	0-7 days
Money Market	1,175,521	-	Daily	0 days
Total investments measured at the NAV	\$ 536,397,829			

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

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

Bond Mutual Funds. This category includes investments in fixed income securities through commingled fund structures. The investment objective of these funds is to track the performance of their respective market-weighted indices with a short-term dollar-weighted average maturity. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.

Money Market Mutual Funds. This category includes investments in high-quality money market instruments through commingled fund structures. The investment objective of these funds is to maximize current income, to the extent consistent with the preservation of capital, and maintain liquidity. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.

Component Units Investments

The University's discretely presented component units' investments at June 30, 2016 are reported at fair value as follows:

<u>Investment Type</u>	<u>University of South Florida Foundation, Inc.</u>	<u>University of South Florida Alumni Association, Inc.</u>	<u>University of South Florida Research Foundation, Inc.</u>	<u>USF Financing Corporation</u>	<u>University Medical Service Association, Inc.</u>	<u>Total</u>
Bonds and Notes	\$ -	\$ -	\$ 1,269,348	\$ -	\$ -	\$ 1,269,348
Stocks and Other						
Equity Securities	-	-	2,494,265	-	-	2,494,265
Investment Agreements	94,220,585	919,401	3,806,623	3,578,956		102,525,565
Hedge Funds	-	-	-	-	3,276,472	3,276,472
Mutual Funds:						
Equities	264,005,275	3,312,293	14,589,980	-	9,012,466	290,920,014
Bonds	122,972,651	1,494,277	8,291,841	-	10,700,437	143,459,206
Money Market	13,563,066	163,460	4,307,276	27,930,780	-	45,964,582
Total Component Units' Investments	\$494,761,577	\$ 5,889,431	\$ 34,759,333	\$ 31,509,736	\$ 22,989,375	\$ 589,909,452

The component unit's recurring fair value measurements as of June 30, 2016 are valued using the following valuation techniques and inputs:

Investments by fair value level	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bonds and Notes	\$ 1,269,348	\$ -	\$ 1,269,348	\$ -
Stocks and Other Equity Securities	2,494,265	2,494,265	-	-
Investment Agreements	102,525,565	-	17,382,310	85,143,255
Mutual Funds:				
Equities	281,907,548	87,093,988	194,813,560	-
Bonds	132,758,769	57,230,313	75,528,456	-
Money Market	45,964,582	45,929,757	34,825	-
Total investments by fair value level	<u>\$ 566,920,077</u>	<u>\$ 192,748,323</u>	<u>\$ 289,028,499</u>	<u>\$ 85,143,255</u>
Investments measured at the net asset value (NAV)				
Hedge Funds	3,276,472			
Mutual Funds:				
Equities	9,012,466			
Bonds	10,700,437			
Total investments measured at NAV	<u>22,989,375</u>			
Total investments measured at fair value	<u>\$ 589,909,452</u>			

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

Investments measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Hedge Funds	\$ 3,276,472	\$ -	Annually	95 days
Mutual Funds:				
Equities	9,012,466	-	Daily	0-7 days
Bonds	10,700,437	-	Daily	0-7 days
Total investments measured at the NAV	<u>\$ 22,989,375</u>			

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

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

Bond Mutual Funds. This category includes investments in fixed income securities through commingled fund structures. The investment objective of these funds is to track the performance of their respective market-weighted indices with a short-term dollar-weighted average maturity. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.

The University's investments (which include investments of its blended component unit, the 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, repurchase agreements, 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, repurchase agreements, and fixed-income investments. The University's investment policy and the Research Foundation's investment policy also allow investments in hedge funds. The following risks apply to the University, 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 obligations. The Medical Professional Liability Self-Insurance Program's investment policy provides that all fixed-income securities investments shall be rated in the top three rating classifications as defined by both Moody's and Standard & Poor's. The University and Research Foundation investment policies provide for credit risk. The risk varies depending on the type of investment.

The following interest rate and credit risks apply to the University, Medical Professional Liability Self-Insurance Program and Research Foundation investments in debt securities and mutual funds at June 30, 2016:

University Debt Investment Maturity and Quality Ratings

Investment Type	Weighted Average Maturities	Credit Quality Rating		Fair Value
		Moody's	Standard and Poor's	
United States Treasury Securities (3)	3.15 Years	(1)	(1)	\$ 10,661,965
Obligations of United States Government Agencies and Instrumentalities (3)	0.78 Years	Aaa	AA+	1,074,856
Repurchase Agreements (4)	1 Day	(2)	(2)	52,528,358
Bonds and Notes (3)	3.45 Years	Aaa - A3	AAA - A-	18,010,689
Bonds and Notes (3)	0.07 Years	Aaa - Aa2	Not Rated	854,893
Bond Mutual Funds (4)	2.93 Years	Not Rated	Not Rated	408,816,478
Money Market Mutual Funds (3)	39 Days	Aaa-mf	AAAm	1,175,521
Total				\$ 493,122,760

Notes: (1) Disclosure of credit risk is not required for this investment type.

(2) Repurchase agreement is collateralized by a Federal Home Loan Mortgage Corporation security and is not rated.

(3) Medical Professional Liability Self-Insurance Program.

(4) University.

University of South Florida Research Foundation, Inc. Investment Maturity

Investment Type	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Bonds and Notes	\$ 1,269,348	\$ 77,451	\$ 482,871	\$ 250,862	\$ 458,164
Mutual Funds:					
Bonds	8,291,841	161,793	5,315,597	2,814,451	-
Money Market	4,307,276	4,307,276	-	-	-
Total	\$ 13,868,465	\$ 4,546,520	\$ 5,798,468	\$ 3,065,313	\$ 458,164

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

Investment Type	Fair Value	AAA	AA	A	Less Than A or Not Rated
Bonds and Notes	\$ 1,269,348	\$ 442,082	\$ 169,365	\$ 228,861	\$ 429,040
Mutual Funds:					
Bonds	8,291,841	330,025	798,700	2,618,924	4,544,192
Money Market	4,307,276	3,913,450	-	-	393,826
Total	\$ 13,868,465	\$ 4,685,557	\$ 968,065	\$ 2,847,785	\$ 5,367,058

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

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investments that are held by someone other than the University and not registered in their names. Investments for the University are held in counterparty

accounts as custodian. The University investment policy provides for custodial credit risk. All investments for the 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, 2016.

3. Receivables

Accounts Receivable. Accounts receivable represent amounts for contract and grant reimbursements due from third parties, student tuition and fees, various sales and services provided to students and third parties, and interest accrued on loans receivable. As of June 30, 2016, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 48,427,416
Student Tuition and Fees	10,618,420
Other	<u>16,007,478</u>
Total Accounts Receivable	<u>\$ 75,053,314</u>

Loans and Notes Receivable. Loans and notes receivable represent all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs.

Allowance for Doubtful Receivables. Allowances for doubtful accounts, and loans and notes receivable, are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of \$16,156,646 and \$1,866,910, respectively, at June 30, 2016.

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

4. Due From State

The amount due from State consists of \$61,912,660 from Public Education Capital Outlay, \$9,121,344 from Capital Improvement Fee Trust Fund, and \$3,988,118 from lottery allocations due from the State to the University for construction of University facilities.

5. Due From and To Component Units/University

The \$15,903,745 reported as due from component units consists of amounts owed to the University from the University of South Florida Research Foundation, Inc. (\$7,778,717) for grant and special project-related revenue and administrative overhead rebate; from Sun Dome, Inc. (\$166,247) for operating expenses; from University of South Florida Foundation, Inc. (\$7,035,311), primarily for salary and operating expense support; and from the USF Health Professions Conferencing Corporation (\$923,470) for program residuals.

The \$88,224,952 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 (\$85,570,482); to the University Medical Service Association, Inc. (\$2,651,879) for deposits made to support the funding of salaries and other operating expenses at USF Health; and to the University of South Florida Alumni Association, Inc. (\$2,591) for payroll expenses.

6. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2016, is shown in the following table:

<u>Description</u>	<u>Beginning Balance</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:					
Land	\$ 15,564,728	\$ 633,001	\$ -	\$ -	\$ 16,197,729
Works of Art and Historical Treasures	1,200,089	-	6,300	-	1,206,389
Other Capital Assets	1,173,750	-	-	-	1,173,750
Construction in Progress	20,929,630	-	42,013,245	21,683,523	41,259,352
Total Nondepreciable Capital Assets	\$ 38,868,197	\$ 633,001	\$ 42,019,545	\$ 21,683,523	\$ 59,837,220
Depreciable Capital Assets:					
Buildings	\$ 1,139,387,384	\$ 925,720	\$ 20,778,588	\$ 1,592,257	\$ 1,159,499,435
Infrastructure and Other Improvements	64,750,382	1,209,705	1,297,708	-	67,257,795
Furniture and Equipment	163,044,310	126,816	11,709,924	6,832,739	168,048,311
Library Resources	15,069,216	-	3,515,679	419,523	18,165,372
Property Under Capital Leases	228,037	-	-	146,699	81,338
Works of Art and Historical Treasures	324,600	-	-	-	324,600
Other Capital Assets	26,186,096	16,520	342,743	2,737,439	23,807,920
Total Depreciable Capital Assets	1,408,990,025	2,278,761	37,644,642	11,728,657	1,437,184,771
Less, Accumulated Depreciation:					
Buildings	441,087,844	793,232	31,388,412	1,404,583	471,864,905
Infrastructure and Other Improvements	31,596,426	466,123	2,389,584	-	34,452,133
Furniture and Equipment	108,290,328	74,634	13,198,674	6,242,320	115,321,316
Library Resources	7,178,732	-	1,764,181	441,553	8,501,360
Property Under Capital Leases	56,802	-	26,290	50,169	32,923
Works of Art and Historical Treasures	163,433	-	38,000	-	201,433
Other Capital Assets	22,782,853	6,677	742,299	2,568,380	20,963,449
Total Accumulated Depreciation	611,156,418	1,340,666	49,547,440	10,707,005	651,337,519
Total Depreciable Capital Assets, Net	\$ 797,833,607	\$ 938,095	\$ (11,902,798)	\$ 1,021,652	\$ 785,847,252

Note: (1) Adjustments to capital assets resulted from the transfer of Keys Marine Lab assets from another State agency, the Florida Fish and Wildlife Conservation Commission, to the Florida Institute of Oceanography (FIO). FIO is an academic infrastructure support organization of the State University System and USF is the designated host institution.

7. 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, 2016, to spend the funds, amounts received from contracts and grants, and auxiliary prepayments received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2016, the University reported the following amounts as unearned revenue:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 36,031,299
Capital Appropriations	334,685
Auxiliary Prepayments	4,253,962
Total Unearned Revenue	\$ 40,619,946

8. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2016, include capital improvement debt payable, installment purchase payable, capital leases payable, estimated insurance claims payable, compensated

absences payable, Federal advance payable, other postemployment benefits payable, and net pension liability. Long-term liabilities activity for the fiscal year ended June 30, 2016, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable	\$ 25,267,946	\$ -	\$ 3,158,759	\$ 22,109,187	\$ 2,222,370
Installment Purchase Payable	109,508	-	26,791	82,717	27,015
Capital Leases Payable	108,626	-	76,091	32,535	16,267
Estimated Insurance Claims Payable	19,430,248	3,876,519	2,477,045	20,829,722	771,083
Compensated Absences Payable	74,418,467	9,864,436	5,985,574	78,297,329	6,591,719
Federal Advance Payable	4,293,571	-	1,076,777	3,216,794	-
Other Postemployment Benefits Payable	92,231,000	31,812,000	5,067,000	118,976,000	-
Net Pension Liability	106,378,277	145,225,473	80,797,505	170,806,245	2,751,108
Total Long-Term Liabilities	\$ 322,237,643	\$ 190,778,428	\$ 98,665,542	\$ 414,350,529	\$ 12,379,562

Capital Improvements Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2016:

Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Capital Improvement Debt:				
2002 Parking	12,700,000	5,583,831	4.50 to 4.75	2023
2004A Parking	16,000,000	6,182,293	3.625 to 4.30	2024
2006A Parking	17,020,000	10,343,063	4.10 to 4.50	2026
Total Capital Improvement Debt	\$ 45,720,000	\$ 22,109,187		

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 \$22,109,187 in capital improvement (parking) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student parking garages. The bonds are payable solely from traffic and parking fees, and transportation access fees and are payable through 2026. The University has committed to appropriate each year from the traffic and parking fees, and transportation access fees amounts sufficient to cover the principal and interest requirements on the debt.

Total principal and interest remaining on the debt is \$27,068,843, and principal and interest paid for the current year totaled \$4,280,629. During the 2015-16 fiscal year, traffic and parking fees, and transportation access fees totaled \$10,855,059 and \$3,186,835, respectively.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2016, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,515,000	667,211	3,182,211
2021	2,620,000	558,199	3,178,199
2022-2026	10,035,000	1,131,444	11,166,444
Subtotal	22,125,000	4,943,843	27,068,843
Net Discounts and Premiums	(15,813)	-	(15,813)
Total	<u>\$ 22,109,187</u>	<u>\$ 4,943,843</u>	<u>\$ 27,053,030</u>

Installment Purchase Payable. The University has entered into an installment purchase agreement for the purchase of equipment reported at \$142,002. The stated interest rate was 2.2 percent. Future minimum payments remaining under the installment purchase agreement and the present value of the minimum payments as of June 30, 2016, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 28,710
2018	28,710
2019	28,711
Total Minimum Payments	86,131
Less, Amount Representing Interest	3,414
Present Value of Minimum Payments	<u>\$ 82,717</u>

Capital Leases Payable. The University has entered into a capital lease agreement for equipment in the amount of \$81,338. The stated interest rate was zero percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2016, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 16,267
2018	16,268
Total Minimum Payments	32,535
Less, Amount Representing Interest	-
Present Value of Minimum Payments	<u>\$ 32,535</u>

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded

primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2016, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$78,297,329. The current portion of the compensated absences liability, \$6,591,719, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

Federal Advance Payable. This represents the University's liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan program. This amount will ultimately be returned to the Federal government should the University cease making Federal Perkins Loans or has excess cash in the loan program. Federal capital contributions held by the University totaled \$3,216,794.

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 (OPEB Plan). The University subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the OPEB Plan information is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The State has not advance-funded other postemployment benefit (OPEB) costs or the net OPEB obligation. Premiums necessary for funding the OPEB Plan each year on a pay-as-you-go basis are established by the Governor's recommended budget and the General Appropriations Act. For the 2015-16 fiscal year, 1,093 retirees received postemployment healthcare benefits. The University provided required contributions of \$5,067,000 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$7,191,000, which represents 1.4 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 17,452,000
Amortization of Unfunded Actuarial Accrued Liability	12,866,000
Interest on Normal Cost and Amortization	<u>1,213,000</u>
Annual Required Contribution	31,531,000
Interest on Net OPEB Obligation	3,689,000
Adjustment to Annual Required Contribution	<u>(3,408,000)</u>
Annual OPEB Cost (Expense)	31,812,000
Contribution Toward the OPEB Cost	<u>(5,067,000)</u>
Increase in Net OPEB Obligation	26,745,000
Net OPEB Obligation, Beginning of Year	<u>92,231,000</u>
Net OPEB Obligation, End of Year	<u><u>\$ 118,976,000</u></u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2016, and for the 2 preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013-14	\$ 21,708,000	18.3%	\$ 75,183,000
2014-15	19,790,000	13.9%	92,231,000
2015-16	31,812,000	15.9%	118,976,000

Funded Status and Funding Progress. As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$348,214,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$348,214,000, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$498,680,238 for the 2015-16 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 69.8 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of

sharing of benefit costs between the employer and participating members. The actuarial calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial valuations used actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The University's OPEB actuarial valuation as of July 1, 2015, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2016, and the University's 2015-16 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year and an inflation rate of 3 percent. Initial healthcare cost trend rates were 4.4 percent, 8.5 percent, and 9.3 percent for the first 3 years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 3.5 percent, 6.6 percent, and 7.5 percent for the first 3 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 3.9 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, 2016, was 21 years.

Net Pension Liability. As a participating employer in the Florida Retirement system, the University recognizes its proportionate share of the collective net position liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2016, the University's proportionate share of the net pension liabilities totaled \$170,806,245. Note 10 includes a complete discussion of defined benefit pension plans.

9. Long-Term Debt – USF Financing Corporation – Component Unit

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

The 2003A Certificates were issued pursuant to the terms of a Trust Indenture dated as of March 1, 2003, by and between the Foundation and the Trustee, as amended and supplemented from time to time, including particularly, as supplemented by that certain First Supplement to Trust Indenture dated November 16, 2005, the Second Supplement to Trust Indenture dated as of March 8, 2011, and the Third Supplement and Amendment to Trust Indenture dated as of March 15, 2011, both by and between the

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

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

Certificates of Participation Series 2010A and 2010B. On December 23, 2010, the USF Financing Corporation issued \$2,860,000 Certificates of Participation Series 2010A (Tax-Exempt) and \$15,140,000 Certificates of Participation Series 2010B (Build America Bonds). The proceeds of the Series 2010A and 2010B Certificates were used to (1) finance the acquisition, construction, and installation of a mixed-use facility that includes a student center and a student housing facility on the University's St. Petersburg Campus, (2) fund capitalized interest accounts, and (3) pay certain expenses related to the issuance and sale of the Series 2010A and 2010B Certificates. The Series 2010A fixed rate Certificates have interest rates ranging from 4 to 5 percent. As the Series 2010B fixed rate Certificates were issued under the Build America Bonds program, the net interest cost is equal to 65 percent of the gross interest rate, which is 8.35 and 8.55 percent. Pursuant to the requirements of the amended Balanced Budget and Emergency Deficit Control Act of 1985, during the 2015-16 fiscal year, the direct Federal subsidy was reduced and the net interest cost equaled 67.4 percent. The Series 2010A Certificates mature in 2020 and the Series 2010B Certificates mature in 2040.

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

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

Certificates of Participation Series 2012A Remarketing (refunded Series 2012A Certificates). On May 6, 2015, the USF Financing Corporation issued the \$77,015,000 Series 2012A Remarketing Certificates of Participation to convert the Series 2012A Certificates of Participation from variable rate to

fixed rate Certificates. The tax-exempt, fixed rate Remarketing Certificates have interest rates ranging from 2 to 5 percent and mature in 2035.

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

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

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

For the Series 2012A Remarketing Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated May 1, 2005, and amended on May 1, 2015, with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the housing and parking facilities are located. All of the rights, title, and interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and relet properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

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

The proceeds derived from the issuance of the Series 2007 Certificates – Housing, issued on September 25, 2007, were used to (1) finance the cost to acquire, construct, and equip a certain housing facility on the University's Tampa campus, (2) fund a capitalized interest account, and (3) pay certain expenses related to the issuance and sale of the Series 2007 Certificates, including the financial guaranty insurance policy premium. The Series 2007 Certificates – Housing initially carried interest at auction rates for generally successive seven day auction periods. On March 24, 2008, the USF Financing Corporation converted the Series 2007 Certificates – Housing from auction rate securities to variable rate demand bonds with a weekly rate period. In connection with the conversion, the USF Financing Corporation surrendered the municipal bond insurance policy. The Series 2007 Certificates were then

secured pursuant to an irrevocable direct pay letter of credit, prior to being refunded by the Series 2012B Certificates.

The Series 2012B Certificates were issued pursuant to a Master Trust Agreement, dated May 1, 2005, as supplemented by the Series 2012B Supplemental Trust Agreement, dated October 1, 2012, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. For the Series 2012B Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated September 1, 2007, with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the Magnolia Residence Hall is located. All of the rights, title, and interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and 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 September 3, 2013, the USF Financing Corporation issued the \$41,650,000 Certificates of Participation Series 2013A to refund the Series 2006A Certificates of Participation. The tax-exempt, variable rate Certificates are hedged to limit the effect of changes in interest rates. The Certificates have an interest rate of 4.23 and mature in 2036.

The proceeds derived from the issuance of the Series 2006A Certificates, issued on March 16, 2006, were used to (1) finance the acquisition and construction of two fully-equipped medical office buildings consisting of the North Clinic Facility and the South Clinic Facility and (2) pay certain expenses related to the issuance and sale of the Series 2006A Certificates. The Series 2006A Certificates initially carried interest at weekly rates for generally successive seven-day weekly rate periods, and were secured pursuant to two separate irrevocable direct-pay letters of credit, prior to being refunded by the Series 2013A Certificates.

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

The USF Financing Corporation's right to receive all payments received from UMSA under the Facility Lease Agreements are collaterally assigned to the Trustee pursuant to one or more separate assignments. All of the rights, title, and interest of the USF Property Corporation in the Ground Lease

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

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

The proceeds derived from the issuance of the Series 2007 Certificates – Health, issued on November 19, 2007, were used to (1) provide funds for the purpose of financing the acquisition, construction, installation and equipping of a medical office building located on the University's Tampa Campus, (2) fund a capitalized interest account, and (3) pay certain expenses related to the issuance and sale of the 2007 Certificates. The Series 2007 Certificates – Health initially carried interest at weekly rates for generally successive seven-day weekly rate periods, and were secured pursuant to an irrevocable direct-pay letter of credit, prior to being refunded by the Series 2013B Certificates.

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

The USF Financing Corporation's right to receive all payments from UMSA under the Facility Lease Agreement are collaterally assigned to the Trustee pursuant to one or more separate assignments. All of the rights, title, and interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and re-let properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

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

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

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

For the Series 2015A Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated as of May 1, 2005, and amended on May 1, 2015, with the University Board of Trustees whereby the University leased to the USF Property Corporation the land on which the housing facilities are located. All of the rights, title, and interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and relet properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee.

Bonds Series 2015 – Marshall Center (refunded Series 2005C Certificates). On May 6, 2015, the USF Financing Corporation issued the \$31,595,000 Series 2015 Capital Improvement Refunding Revenue Bonds – Marshall Center to refund the Series 2005C Certificates of Participation. The tax-exempt, fixed rate Bonds have interest rates ranging from 2 to 5 percent and mature in 2036.

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

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

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

Notes Series 2010A and 2010B Athletics. On January 15, 2010 and December 15, 2010, the USF Financing Corporation issued the \$10,000,000 Series 2010A Taxable Promissory Note and \$13,500,000 Series 2010B Taxable Promissory Note, respectively. The proceeds of the Notes were used to finance the acquisition, construction, and equipping of the athletics district facilities. The Series 2010A and 2010B fixed rate Notes have gross interest rates of 8.02 and 6.17 percent, respectively. As the Notes were issued under the Build America Bonds program, the net interest costs are equal to 65 percent of the gross interest rates. Pursuant to the requirements of the amended Balanced Budget and Emergency Deficit Control Act of 1985, during the 2015-16 fiscal year, the direct Federal subsidies were reduced and the net interest costs equaled 67.4 percent. The Series 2010A and 2010B Notes mature in 2030 and 2031, respectively.

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

Note Series 2010 CAMLS. On December 15, 2010, the USF Financing Corporation issued the \$20,000,000 Series 2010 CAMLS Taxable Promissory Note. The proceeds of the Note were used to finance the acquisition, construction, and equipping of the USF Center for Advanced Medical Learning and Simulation (CAMLS) facility. The Series 2010 Note has a gross interest rate of 6.17 percent. As the

Note was issued under the Build America Bonds program, the net interest cost is equal to 65 percent of the gross interest rate. Pursuant to the requirements of the amended Balanced Budget and Emergency Deficit Control Act of 1985, during the 2015-16 fiscal year, the direct Federal subsidy was reduced and the net interest cost equaled 67.4 percent. The Series 2010 Note matures in 2031.

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

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

Principal and Interest Payments. Principal and interest payment requirements on the long term debt outstanding as of June 30, 2016, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 11,075,998	\$ 16,137,309	\$ 27,213,307
2018	11,543,417	15,663,015	27,206,432
2019	12,017,668	15,125,940	27,143,608
2020	12,569,217	14,545,349	27,114,566
2021	13,153,556	13,929,165	27,082,721
2022-2026	72,779,697	59,487,092	132,266,789
2027-2031	89,972,557	38,700,754	128,673,311
2032-2036	89,645,000	16,129,442	105,774,442
2037-2040	21,050,000	1,773,061	22,823,061
Subtotal	333,807,110	191,491,127	525,298,237
Premiums	17,470,221	-	17,470,221
Total	<u>\$ 351,277,331</u>	<u>\$ 191,491,127</u>	<u>\$ 542,768,458</u>

Interest Rate Swap Agreements. Effective March 16, 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 on the total \$39,205,000 principal in variable rate Series 2013A Certificates. The interest rate on the swap agreement is 3.578 percent and the swap agreement expires July 1, 2016.

Effective September 25, 2007, the USF Financing Corporation entered into an interest rate swap agreement with a counterparty to limit the effects of changes in interest rates on the Series 2012B Certificates (refunded Series 2007 Certificates – Housing). The initial notional amount of the swap agreement is \$73,700,000. The effect of the agreement is to limit the interest expense on the total \$63,675,000 principal in variable rate Series 2012B Certificates. The interest rate on the swap

agreement, as amended on March 24, 2008, is 3.552 percent and the interest rate swap agreement expires July 1, 2037.

Effective November 19, 2007, the USF Financing Corporation entered into an interest swap agreement with a counterparty to limit the effects of changes in interest rates on the Series 2013B Certificates (refunded Series 2007 Certificates – Health). The initial notional amount of the interest rate swap agreement is \$22,830,000. The effect of the agreement is to limit the interest expense on the total \$19,750,000 principal in the variable rate Series 2013B Certificates. The interest rate on the swap agreement is 3.397 percent and the swap agreement expires July 1, 2018.

The interest rate swap agreements contain collateral provisions to mitigate counterparty credit risk. The collateral provisions of the interest rate swap agreement relating to the Series 2012B Certificates require the USF Financing Corporation to maintain a rating of at least Baa1 by Moody's Investors Service or BBB+ by Standard & Poor's on its Housing Certificates. The provisions require the USF Financing Corporation to post collateral, in the form of cash or securities, for the negative valuation exposure in excess of the \$10 million minimum threshold level. Additionally, the collateral provisions of the interest rate swap agreement relating to the Series 2013B Certificates, amended August 19, 2014, require the USF Financing Corporation to post collateral, in the form of cash or securities, totaling \$1,000,000, regardless of fluctuations in exposure. As of June 30, 2016, the total posted collateral was \$11,890,000.

The fair value of the swap agreements is the estimated amount the USF Financing Corporation would receive or pay to terminate the agreement at the reporting date, taking into account the current interest rates and the current creditworthiness of the counterparties. As of June 30, 2016, the USF Financing Corporation interest rate swap agreements had a cumulative negative fair value of \$20,320,627, which represents the amount to be paid to terminate the agreements at the reporting date.

As of June 30, 2016, 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.

10. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

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

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

The University's FRS and HIS pension expense totaled \$18,497,308 for the fiscal year ended June 30, 2016.

FRS Pension Plan

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

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

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after

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

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS-participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

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

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

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

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2015-16 fiscal year were:

<u>Class or Plan</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.26
FRS, Senior Management Service	3.00	21.43
FRS, Special Risk	3.00	22.04
FRS, Plan E	6.25	11.90
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.88
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.

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

The University's contributions to the Plan totaled \$18,547,490 for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the University reported a liability of \$98,722,179 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The University's proportionate share of the net pension liability was based on the University's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the University's proportionate share was 0.764319997 percent, which was an increase of 0.045843846 from its proportionate share measured as of June 30, 2014.

For the year ended June 30, 2016, the University recognized pension expense of \$12,576,806. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 10,422,139	\$ 2,341,389
Change of assumptions	6,552,522	-
Net difference between projected and actual earnings on FRS Plan investments	-	23,573,204
Changes in proportion and differences between University contributions and proportionate share of contributions	24,865,800	-
University FRS contributions subsequent to the measurement date	18,547,490	-
Total	<u>\$ 60,387,951</u>	<u>\$ 25,914,593</u>

The deferred outflows of resources related to pensions totaling \$18,547,490, resulting from University contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ (2,290,946)
2018	(2,290,946)
2019	(2,290,946)
2020	17,157,684
2021	4,710,522
Thereafter	930,500
Total	<u>\$ 15,925,868</u>

Actuarial Assumptions. The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.65 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	3.2%	3.1%	1.7%
Fixed Income	18%	4.8%	4.7%	4.7%
Global Equity	53%	8.5%	7.2%	17.7%
Real estate (Property)	10%	6.8%	6.2%	12.0%
Private Equity	6%	11.9%	8.2%	30.0%
Strategic Investments	12%	6.7%	6.1%	11.4%
Total	<u>100%</u>			
Assumed inflation - Mean		2.6%		1.9%

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

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

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
University's proportionate share of the net pension liability	\$ 255,811,492	\$ 98,722,179	\$(32,001,933)

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

HIS Pension Plan

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

Benefits Provided. For the fiscal year ended June 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2016, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The University contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The University's contributions to the HIS Plan totaled \$3,647,462 for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions. At June 30, 2016, the University reported a liability of \$72,084,066 for its proportionate share of the net pension liability. The current portion of the net pension liability is the University's proportionate share of benefit payments expected to be paid within one year, net of the University's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to the HIS Plan actuarial valuation as of July 1, 2014. The University's proportionate share of the net pension liability was based on the University's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the University's proportionate share was 0.706815530 percent, which was an increase of 0.037948860 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the University recognized pension expense of \$5,920,502. In addition, the University reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 5,671,135
Net difference between projected and actual earnings on HIS Plan investments	39,021
Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions	3,336,334
University HIS contributions subsequent to the measurement date	<u>3,647,462</u>
Total	<u><u>\$ 12,693,952</u></u>

The deferred outflows of resources totaling \$3,647,462 resulting from University contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 1,537,863
2018	1,537,863
2019	1,537,863
2020	1,529,932
2021	1,526,125
Thereafter	<u>1,376,844</u>
Total	<u>\$ 9,046,490</u>

Actuarial Assumptions. The total pension liability at July 1, 2015, determined by applying update procedures to the actuarial valuation at July 1, 2014, used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Municipal bond rate	3.80 percent

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

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

Discount Rate. The discount rate used to measure the total pension liability was 3.8 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 4.29 percent from the prior measurement date.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 3.8 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.8 percent) or 1 percentage point higher (4.8 percent) than the current rate:

	<u>1% Decrease (2.8%)</u>	<u>Current Discount Rate (3.8%)</u>	<u>1% Increase (4.8%)</u>
University's proportionate share of the net pension liability	\$ 82,136,437	\$ 72,084,066	\$ 63,701,897

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

11. Retirement Plans – Defined Contribution Pension Plans

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2015-16 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30
FRS, Senior Management Service	7.67
FRS, Special Risk Regular	14.00

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the University.

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

The University's Investment Plan pension expense totaled \$4,373,567 for the fiscal year ended June 30, 2016.

State University System Optional Retirement Program. Section 121.35, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible university instructors and administrators. The Program is designed to aid State universities in recruiting employees by offering more portability to employees not expected to remain in FRS for 8 or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes 5.14 percent of the participant's salary to the participant's account, 2.65 percent to cover the unfunded actuarial liability of the FRS pension plan, 0.01 percent to cover administrative costs, for a total of 7.8 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The University's contributions to the Program totaled \$21,016,828 and employee contributions totaled \$14,559,108 for the 2015-16 fiscal year.

12. Construction Commitments

The University's construction commitments at June 30, 2016, are as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
USF Health Heart Institute	\$ 34,381,001	\$ 2,768,296	\$ 31,612,705
USF St. Petersburg College of Business	29,778,499	18,284,003	11,494,496
USF Morsani College of Medicine	22,000,000	-	22,000,000
USF Health Student Wellness Center	7,116,624	5,243,720	1,872,904
USF Library Remodel	4,122,733	-	4,122,733
Subtotal	97,398,857	26,296,019	71,102,838
Other Projects (1)	34,731,010	14,963,333	19,767,677
Total	<u>\$ 132,129,867</u>	<u>\$ 41,259,352</u>	<u>\$ 90,870,515</u>

Note: (1) Individual projects with current balance committed of less than \$4 million at June 30, 2016.

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 2015-16 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 \$54 million for named windstorm and flood losses through February 14, 2016, and increased to \$85 million starting February 15, 2016. 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 3 fiscal years.

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

University Self-Insurance Program.

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

The Program provides coverage to protected entities in the amount of \$200,000 per claim and \$300,000 per occurrence pursuant to Section 768.28, Florida Statutes. Additional coverage is provided through the University of South Florida Health Sciences Center Insurance Company, a captive insurance company, with a self-insured retention of \$3 million per occurrence up to an aggregate of \$10 million for all payments made on claims arising during the fiscal year. Losses in excess of the individual and aggregate amounts, up to \$35 million, are insured commercially. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The Program's estimated liability for unpaid claims at fiscal year-end is the result of both management and actuarial analyses and includes an amount for claims that have been incurred but not reported. Changes in the Program's claim liability amount for the fiscal years ended June 30, 2015, and June 30, 2016, are presented in the following table:

Fiscal Year	Claims Liabilities Beginning of Year	Claims and Changes in Estimates	Claim Payments	Claims Liability End of Year
2014-15	\$ 19,010,410	\$ 2,947,300	\$ (2,527,462)	\$ 19,430,248
2015-16	19,430,248	3,876,519	(2,477,045)	20,829,722

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 364,919,628
Research	286,639,474
Public Services	5,318,116
Academic Support	128,650,108
Student Services	52,528,379
Institutional Support	86,895,782
Operation and Maintenance of Plant	63,073,941
Scholarships, Fellowships, and Waivers	74,843,702
Depreciation	49,547,440
Auxiliary Enterprises	156,228,571
Loan Operations	100,962
Total Operating Expenses	<u><u>\$ 1,268,746,103</u></u>

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

Condensed Statement of Net Position

	<u>Parking Facility</u>
Assets	
Current Assets	\$ 13,130,312
Capital Assets, Net	38,796,699
Other Noncurrent Assets	<u>9,915,883</u>
Total Assets	<u>61,842,894</u>
Deferred Outflows of Resources	<u>361,525</u>
Liabilities	
Current Liabilities	2,735,106
Noncurrent Liabilities	<u>21,531,706</u>
Total Liabilities	<u>24,266,812</u>
Deferred Inflows of Resources	<u>128,195</u>
Net Position	
Net Investment in Capital Assets	16,687,513
Restricted - Expendable	10,251,207
Unrestricted	<u>10,870,692</u>
Total Net Position	<u><u>\$ 37,809,412</u></u>

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

	<u>Parking Facility</u>
Operating Revenues	\$ 14,047,255
Depreciation Expense	(1,556,973)
Other Operating Expenses	<u>(8,922,077)</u>
Operating Income	<u>3,568,205</u>
Nonoperating Revenues (Expenses):	
Nonoperating Revenue	103,138
Interest Expense	(1,077,459)
Other Nonoperating Expense	<u>(40,147)</u>
Net Nonoperating Expenses	<u>(1,014,468)</u>
Increase in Net Position	2,553,737
Net Position, Beginning of Year	<u>35,255,675</u>
Net Position, End of Year	<u><u>\$ 37,809,412</u></u>

Condensed Statement of Cash Flows

	<u>Parking Facility</u>
Net Cash Provided (Used) by:	
Operating Activities	\$ 5,644,535
Capital and Related Financing Activities	(3,754,633)
Investing Activities	<u>(1,556,466)</u>
Net Increase in Cash and Cash Equivalents	333,436
Cash and Cash Equivalents, Beginning of Year	<u>3,481,776</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 3,815,212</u></u>

17. Blended Component Unit

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

Condensed Statement of Net Position

	Medical Professional Liability Self-Insurance Program	University	Eliminations	Total Primary Government
Assets:				
Current Assets	\$ 6,862,595	\$ 779,138,036	\$ -	\$ 786,000,631
Capital Assets, Net	39,779	845,644,693	-	845,684,472
Other Noncurrent Assets	<u>43,986,523</u>	<u>17,993,696</u>	<u>-</u>	<u>61,980,219</u>
Total Assets	<u>50,888,897</u>	<u>1,642,776,425</u>	<u>-</u>	<u>1,693,665,322</u>
Deferred Outflows of Resources	<u>-</u>	<u>73,081,903</u>	<u>-</u>	<u>73,081,903</u>
Liabilities:				
Current Liabilities	834,326	209,009,864	-	209,844,190
Noncurrent Liabilities	<u>20,058,639</u>	<u>381,912,328</u>	<u>-</u>	<u>401,970,967</u>
Total Liabilities	<u>20,892,965</u>	<u>590,922,192</u>	<u>-</u>	<u>611,815,157</u>
Deferred Inflows of Resources	<u>-</u>	<u>25,914,593</u>	<u>-</u>	<u>25,914,593</u>
Net Position:				
Net Investment in Capital Assets	39,779	723,722,861	-	723,762,640
Restricted - Expendable	29,956,153	171,321,244	-	201,277,397
Unrestricted	<u>-</u>	<u>203,977,438</u>	<u>-</u>	<u>203,977,438</u>
Total Net Position	<u><u>\$ 29,995,932</u></u>	<u><u>\$ 1,099,021,543</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,129,017,475</u></u>

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

	Medical Professional Liability Self-Insurance Program	University	Eliminations	Total Primary Government
Operating Revenues	\$ 7,017,692	\$ 809,257,065	\$ (569,576)	\$ 815,705,181
Depreciation Expense	(11,441)	(49,535,999)	-	(49,547,440)
Other Operating Expenses	(7,505,040)	(1,212,263,199)	569,576	(1,219,198,663)
Operating Loss	(498,789)	(452,542,133)	-	(453,040,922)
Nonoperating Revenues (Expenses):				
Nonoperating Revenues	942,724	499,478,091	-	500,420,815
Interest Expense	-	(1,129,506)	-	(1,129,506)
Other Nonoperating Expenses	-	(46,328,884)	-	(46,328,884)
Net Nonoperating Revenues	942,724	452,019,701	-	452,962,425
Other Revenues	-	41,350,222	-	41,350,222
Increase in Net Position	443,935	40,827,790	-	41,271,725
Net Position, Beginning of Year	29,551,997	1,058,193,753	-	1,087,745,750
Net Position, End of Year	<u>\$ 29,995,932</u>	<u>\$ 1,099,021,543</u>	<u>\$ -</u>	<u>\$ 1,129,017,475</u>

Condensed Statement of Cash Flows

	Medical Professional Liability Self-Insurance Program	University	Eliminations	Total Primary Government
Net Cash Provided (Used) by:				
Operating Activities	\$ 1,917,244	\$ (368,405,210)	\$ -	\$ (366,487,966)
Noncapital Financing Activities	-	432,634,545	-	432,634,545
Capital and Related Financing Activities	(3,286)	(28,707,316)	-	(28,710,602)
Investing Activities	(66,047)	(41,816,358)	-	(41,882,405)
Net Increase (Decrease) in Cash and Cash Equivalents	1,847,911	(6,294,339)	-	(4,446,428)
Cash and Cash Equivalents, Beginning of Year	1,291,129	44,814,801	-	46,105,930
Cash and Cash Equivalents, End of Year	<u>\$ 3,139,040</u>	<u>\$ 38,520,462</u>	<u>\$ -</u>	<u>\$ 41,659,502</u>

18. Discretely Presented Component Units

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

Condensed Statement of Net Position

Direct-Support Organizations

	University of South Florida Foundation, Inc.	University of South Florida Alumni Association, Inc.	USF Health Professions Conferencing Corporation	Sun Dome, Inc.	University of South Florida Research Foundation, Inc.	USF Financing Corporation and USF Property Corporation (1)	University Medical Service Association, Inc. (Faculty Practice Plan) (2)	Total
Assets:								
Current Assets	\$ 128,316,998	\$ 902,406	\$ 2,187,731	\$ 1,540,223	\$ 18,899,504	\$ 100,108,917	\$ 74,399,347	\$ 326,355,126
Capital Assets, Net	10,759,899	-	3,598,564	720,964	44,926,265	249,464,633	6,926,001	316,396,326
Other Noncurrent Assets	417,297,754	5,359,485	15,513	-	29,137,908	31,509,736	11,193,246	494,513,642
Total Assets	556,374,651	6,261,891	5,801,808	2,261,187	92,963,677	381,083,286	92,518,594	1,137,265,094
Deferred Outflows of Resources	-	-	-	-	497,068	-	-	497,068
Liabilities:								
Current Liabilities	10,722,055	2,219,040	4,641,317	1,172,235	11,221,640	16,979,729	14,061,101	61,017,117
Noncurrent Liabilities	5,447,403	-	58,234	616,235	30,217,068	360,521,960	1,136,094	397,996,994
Total Liabilities	16,169,458	2,219,040	4,699,551	1,788,470	41,438,708	377,501,689	15,197,195	459,014,111
Net Position:								
Net Investment in Capital Assets	4,960,041	-	2,550,964	(15,272)	14,600,431	-	6,505,093	28,601,257
Restricted	532,884,261	1,056,164	118,737	-	-	-	8,581,508	542,640,670
Unrestricted	2,360,891	2,986,687	(1,567,444)	487,989	37,421,606	3,581,597	62,234,798	107,506,124
Total Net Position	\$ 540,205,193	\$ 4,042,851	\$ 1,102,257	\$ 472,717	\$ 52,022,037	\$ 3,581,597	\$ 77,321,399	\$ 678,748,051

Notes: (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.

(2) The University of South Florida Medical Services Support Corporation (MSSC) and University Medical Service Association, Inc.'s (UMSA) financial statements were combined due to the transition of MSSC's operations to UMSA during the 2015-16 fiscal year. MSSC continues to be a direct-support organization of the University, but its former operations are assumed by UMSA.

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

	Direct-Support Organizations							
	University of South Florida Foundation, Inc.	University of South Florida Alumni Association, Inc.	USF Health Professions Conferencing Corporation	Sun Dome, Inc.	University of South Florida Research Foundation, Inc.	USF Financing Corporation and USF Property Corporation (1)	University Medical Service Association, Inc. (Faculty Practice Plan) (2)	Total
Operating Revenues	\$ 51,923,140	\$ 2,621,229	\$ 18,567,624	\$ 8,375,635	\$ 12,696,158	\$ 53,216,060	\$ 241,980,688	\$ 389,380,534
Operating Expenses	(63,291,714)	(2,574,481)	(17,134,266)	(7,792,763)	(9,672,191)	(31,108,162)	(252,380,633)	(383,954,210)
Operating Income (Loss)	(11,368,574)	46,748	1,433,358	582,872	3,023,967	22,107,898	(10,399,945)	5,426,324
Net Nonoperating Expenses	(3,663,380)	(200,895)	(943,866)	(524,163)	(2,704,240)	(19,883,444)	(3,644,370)	(31,564,358)
Increase (Decrease) in Net Position	(15,031,954)	(154,147)	489,492	58,709	319,727	2,224,454	(14,044,315)	(26,138,034)
Net Postion, Beginning of Year	555,237,147	4,196,998	612,765	414,008	51,702,310	1,357,143	91,365,714	704,886,085
Net Position, End of Year	\$ 540,205,193	\$ 4,042,851	\$ 1,102,257	\$ 472,717	\$ 52,022,037	\$ 3,581,597	\$ 77,321,399	\$ 678,748,051

Notes: (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.

(2) The University of South Florida Medical Services Support Corporation (MSSC) and University Medical Service Association, Inc.'s (UMSA) financial statements were combined due to the transition of MSSC's operations to UMSA during the 2015-16 fiscal year. MSSC continues to be a direct-support organization of the University, but its former operations are assumed by UMSA.

19. Subsequent Events

On December 13, 2016, the State of Florida Division of Bond Finance issued the University of South Florida Parking Facility Revenue Refunding Bonds, Series 2016A ("Series 2016A Bonds"), with a par amount of \$21,545,000 for delivery on January 12, 2017. The purpose of the Series 2016A Bonds is to refund all of the outstanding State of Florida, Florida Board of Education, University of South Florida Parking Facility Revenue Bonds, Series 2002, Series 2004A, and Series 2006A, with an outstanding aggregate principal amount of \$21,270,000. The issuance of the Series 2016A Bonds reduced the average fixed interest rate of the refunded bonds from 4.39 percent to 2.26 percent. The final maturity for the Series 2016A Bonds is 2026.

USF Financing Corporation – Component Unit

Conversion of Series 2013A Certificates of Participation

On July 1, 2016, the USF Financing Corporation converted the Series 2013A Certificates with outstanding par amount of \$37,920,000, subsequent to the principal payment made on that day, from a variable rate to a 10-year fixed rate of 2.31 percent. The converted Certificates continue to be held as a direct placement by JPMorgan Chase Bank, N.A. The associated interest rate swap expired on the same day.

Termination of Support Agreement Related to Series 2010A&B Certificates of Participation

The support agreement between the University of South Florida Foundation, Inc. (Foundation) and the USF Financing Corporation related to the Series 2010A&B Certificates provides that the Foundation may be released from its obligations and the support agreement terminated upon delivery to the Trustee of a certification by the University affirming that pledged Activity & Service fees exceed certain thresholds stipulated in the agreement. On July 8, 2016, the University provided said certification to the Trustee and the support agreement was terminated.

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]
7/1/2011	\$ -	\$ 230,266,000	\$ 230,266,000	0%	\$ 463,709,057	49.7%
7/1/2013	-	247,391,000	247,391,000	0%	482,063,719	51.3%
7/1/2015	-	348,214,000	348,214,000	0%	498,680,238	69.8%

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

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

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

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

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

Schedule of University Contributions – Florida Retirement System Pension Plan

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

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

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

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

	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
University's proportion of the HIS net pension liability	0.706815530%	0.668866670%	0.662647783%
University's proportionate share of the HIS net pension liability	\$ 72,084,066	\$ 62,540,666	\$ 57,692,202
University's covered-employee payroll (2)	\$ 208,898,281	\$ 194,843,828	\$ 189,351,023
University's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	34.51%	32.10%	30.47%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	0.50%	0.99%	1.78%

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

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**Schedule of University Contributions –
Health Insurance Subsidy Pension Plan**

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 3,647,462	\$ 2,701,889	\$ 2,291,312
HIS contributions in relation to the contractually required HIS contribution	3,647,462	2,701,889	2,291,312
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered-employee payroll (2)	\$ 220,376,032	\$ 208,898,281	\$ 194,843,828
HIS contributions as a percentage of covered-employee payroll	1.66%	1.29%	1.18%

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

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
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1. Schedule of Funding Progress – Other Postemployment Benefit Plan

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

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

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 4.29 percent to 3.80 percent.



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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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of South Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 16, 2016, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the blended and aggregate discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the University of South Florida Health Sciences Center Insurance Co., Inc. included within the Medical Professional Liability Self-Insurance Program, a blended component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a

combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
December 16, 2016