

FINANCIAL STATEMENTS

University of South Florida Foundation, Inc.
Years Ended June 30, 2007 and 2006
With Report of Independent Certified Public Accountants

University of South Florida Foundation, Inc.

Financial Statements

Years Ended June 30, 2007 and 2006

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Report of Independent Certified Public Accountants

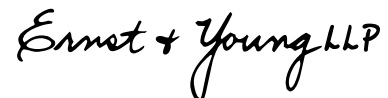
The Board of Trustees
University of South Florida Foundation, Inc.

We have audited the accompanying statements of financial position of the University of South Florida Foundation, Inc. (the Foundation) as of June 30, 2007 and 2006, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of South Florida Foundation, Inc. at June 30, 2007 and 2006, and the changes in its net assets, cash flows and functional expenses for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2007, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with provisions of certain laws, regulations, contracts, and grant agreements and other matters. 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* and should be considered in assessing the results of our audit.



October 30, 2007

University of South Florida Foundation, Inc.

Statements of Financial Position

	June 30	
	2007	2006
Assets		
Cash and cash equivalents	\$ 2,063,281	\$ 869,135
Short-term pooled investments	53,526,452	57,898,655
Accrued interest receivable	245,503	300,890
Contributions receivable, net	23,997,710	25,984,014
Other receivables, net	563,071	364,962
Long-term pooled investments	393,355,043	332,569,236
Contributed land held for investment	–	350,000
Funds held in trust by others	6,239,318	5,616,635
Books and art objects	2,228,926	4,358,173
Land, buildings, and equipment, net	686,742	577,922
Interest rate swap receivable	124,664	213,538
Capitalized lease receivable, net	12,195,000	12,710,000
	<hr/>	<hr/>
Total assets	\$ 495,225,710	\$ 441,813,160
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,815,402	\$ 1,753,658
Due to Florida Department of Education	–	16,557,707
Annuities and life income trusts payable	814,330	826,683
Amounts due to third-party beneficiaries	9,282,476	8,254,686
Due to the University of South Florida	8,111,236	213,538
Bonds payable	–	920,000
Certificates of participation payable	12,195,000	12,710,000
Total liabilities	32,218,444	41,236,272
	<hr/>	<hr/>
Net Assets:		
Unrestricted net assets	7,207,584	7,296,963
Temporarily restricted net assets	184,295,733	134,090,993
Permanently restricted net assets	271,503,949	259,188,932
Total net assets	463,007,266	400,576,888
	<hr/>	<hr/>
Total liabilities and net assets	\$ 495,225,710	\$ 441,813,160
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes.

University of South Florida Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions, gifts, and bequests	\$ 2,928,265	\$ 18,976,778	\$ 11,684,213	\$ 33,589,256
Special events and fund-raising activities	315,703	2,134,416	-	2,450,119
Lease income	327,412	-	-	327,412
Investment earnings	198,937	68,289,990	8,121	68,497,048
Net assets released from restrictions	38,939,984	(38,939,984)	-	-
Total revenues	<u>42,710,301</u>	<u>50,461,200</u>	<u>11,692,334</u>	<u>104,863,835</u>
Expenses:				
Program services	36,921,464	-	-	36,921,464
Operating costs	3,392,014	-	-	3,392,014
Fundraising costs	2,486,202	-	-	2,486,202
Total expenses	<u>42,799,680</u>	<u>-</u>	<u>-</u>	<u>42,799,680</u>
Change in net assets before change in value split interest agreements	(89,379)	50,461,200	11,692,334	62,064,155
Change in value of split interest agreements	-	(256,460)	622,683	366,223
Change in net assets	(89,379)	50,204,740	12,315,017	62,430,378
Net assets, beginning of year	7,296,963	134,090,993	259,188,932	400,576,888
Net assets, end of year	<u>\$ 7,207,584</u>	<u>\$ 184,295,733</u>	<u>\$ 271,503,949</u>	<u>\$ 463,007,266</u>

See accompanying notes.

University of South Florida Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions, gifts, and bequests	\$ 2,633,529	\$ 22,808,689	\$ 24,956,762	\$ 50,398,980
Special events and fund-raising activities	266,863	1,870,018	-	2,136,881
Lease income	796,513	-	-	796,513
Investment earnings	105,088	37,297,002	18,375	37,420,465
Net assets released from restrictions	45,471,467	(45,471,467)	-	-
Total revenues	49,273,460	16,504,242	24,975,137	90,752,839
Expenses:				
Program services	40,969,412	-	-	40,969,412
Operating costs	4,591,908	-	-	4,591,908
Fundraising costs	3,466,207	-	-	3,466,207
Total expenses	49,027,527	-	-	49,027,527
Change in net assets before change in value split interest agreements	245,933	16,504,242	24,975,137	41,725,312
Change in value of split interest agreements	-	(167,675)	312,120	144,445
Change in net assets	245,933	16,336,567	25,287,257	41,869,757
Net assets, beginning of year	7,051,030	117,754,426	233,901,675	358,707,131
Net assets, end of year	\$ 7,296,963	\$ 134,090,993	\$ 259,188,932	\$ 400,576,888

See accompanying notes.

University of South Florida Foundation, Inc.

Statements of Cash Flows

	June 30	
	2007	2006
Operating activities		
Change in net assets	\$ 62,430,378	\$ 41,869,757
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for losses and discounts on contributions receivable	(983,444)	(2,235,612)
Contributions restricted for long-term investment	(12,999,524)	(23,688,895)
Books and art objects	(28,400)	(31,771)
Change in estimate related to books and art objects	2,157,647	-
Depreciation	62,725	75,414
Investment gains, net	(57,202,893)	(28,664,698)
Change in value of split interest agreements	(366,223)	(144,445)
Changes in assets and liabilities:		
Accrued interest receivable	55,387	(97,808)
Contributions receivable	2,969,748	2,824,581
Other receivables	(198,109)	29,795
Accounts payable and accrued expenses	(8,509,391)	15,147,193
Annuities and life income trusts payable	(12,353)	72,039
Amounts due (from) to third-party beneficiaries	1,027,790	664,625
Net cash (used in) provided by operating activities	(11,596,662)	5,820,175
Investing activities		
Proceeds from sales of land, buildings, and equipment	350,000	-
Loss on disposal of fixed assets	(171,545)	-
Interest and dividends reinvested	(11,294,155)	(8,755,767)
Purchases of pooled investments	(310,954,645)	(228,222,431)
Proceeds from sales and maturities of pooled investments	322,781,629	208,169,248
Net cash provided by (used in) investing activities	711,284	(28,808,950)
Financing activities		
Proceeds from contributions restricted for long-term investment	12,999,524	23,688,895
Principal payments received on capitalized lease receivable	515,000	490,000
Change in value of interest rate swap receivable	88,874	(213,538)
Net transfer to/from the University of South Florida	(88,874)	213,538
Principal payments on bonds payable	(1,435,000)	(570,000)
Net cash provided by financing activities	12,079,524	23,608,895
Change in cash and cash equivalents	1,194,146	620,120
Cash and cash equivalents, beginning of year	869,135	249,015
Cash and cash equivalents, end of year	\$ 2,063,281	\$ 869,135

See accompanying notes.

University of South Florida Foundation, Inc.

Statement of Functional Expenses

Year Ended June 30, 2007

	Foundation General	Academic Affairs	Student Affairs	University General	Total
Program services					
Salaries and other supplements	\$ -	\$ 10,927,904	\$ 141,591	\$ 103,611	\$ 11,173,106
Community relations	-	1,109,673	50,911	-	1,160,584
Travel and per diems	-	1,383,356	12,174	145,936	1,541,466
Supplies	-	1,028,013	8,667	-	1,036,680
Scholarships and awards	-	3,809,872	106,362	256,019	4,172,253
Conferences and seminars	-	1,138,841	4,489	-	1,143,330
University services	-	13,486,700	29,547	-	13,516,247
Books and journals	-	26,642	-	-	26,642
Building repair and maintenance	-	580,832	-	-	580,832
Change in fair value of interest rate swap	-	-	-	(88,874)	(88,874)
Interest expense	-	-	-	416,286	416,286
Service and independent contractors	-	1,324,872	867	-	1,325,739
Other program costs	-	828,109	433	88,631	917,173
	-	35,644,814	355,041	921,609	36,921,464
Operating costs					
Salaries and other supplements	1,690,359	-	-	-	1,690,359
Community relations	246	-	-	-	246
Travel and per diems	-	-	-	-	-
Supplies	8,381	-	-	107,134	115,515
Conferences and seminars	51,870	-	-	51,115	102,985
University services	-	-	-	122,138	122,138
Postage and printing	2,114	490,182	-	114,470	606,766
Building repair and maintenance	26,247	-	-	69,938	96,185
Service and independent contractors	499,507	-	-	86,153	585,660
Investment counselor and other fees	66,300	-	-	-	66,300
Licenses, taxes, and assessments	14,556	2,094	-	-	16,650
Loss on sale of fixed assets	-	63,750	-	70,099	133,849
Bad debts recoveries	-	(344,886)	600	-	(344,286)
Insurance	44,198	68,441	-	-	112,639
Depreciation	-	44,879	-	17,846	62,725
Other operating costs	24,283	-	-	-	24,283
	2,428,061	324,460	600	638,893	3,392,014
Fundraising costs					
Salaries and other supplements	-	-	-	2,030,645	2,030,645
Community relations	-	-	-	249,026	249,026
Travel and per diems	-	-	-	5,059	5,059
Supplies	-	-	-	12,757	12,757
University services	-	-	-	1,345	1,345
Postage and printing	-	-	-	134,759	134,759
Licenses, taxes, and assessments	-	-	-	52,611	52,611
	-	-	-	2,486,202	2,486,202
Total	\$ 2,428,061	\$ 35,969,274	\$ 355,641	\$ 4,046,704	\$ 42,799,680

See accompanying notes.

University of South Florida Foundation, Inc.

Statement of Functional Expenses

Year Ended June 30, 2006

	Foundation General	Academic Affairs	Student Affairs	University General	Total
Program services					
Salaries and other supplements	\$ -	\$ 9,836,362	\$ 270,630	\$ 137,800	\$ 10,244,792
Community relations	-	963,477	56,960	-	1,020,437
Travel and per diems	-	1,054,079	9,526	142,848	1,206,453
Supplies	-	796,318	10,392	-	806,710
Scholarships and awards	-	2,371,204	302,710	228,297	2,902,211
Conferences and seminars	-	1,015,492	1,717	-	1,017,209
University services	-	20,328,961	51,331	-	20,380,292
Books and journals	-	38,713	-	-	38,713
Building repair and maintenance	-	176,893	15,976	-	192,869
Change in fair value of interest rate swap	-	-	-	213,538	213,538
Interest expense	-	-	-	582,975	582,975
Service and independent contractors	-	1,391,573	30,762	-	1,422,335
Other program costs	-	811,583	1,057	128,238	940,878
	-	38,784,655	751,061	1,433,696	40,969,412
Operating costs					
Salaries and other supplements	2,610,312	-	-	-	2,610,312
Community relations	4,680	-	-	-	4,680
Travel and per diems	11,069	-	-	-	11,069
Supplies	11,814	-	-	74,066	85,880
Conferences and seminars	16,252	-	-	37,586	53,838
University services	2,760	-	-	188,453	191,213
Postage and printing	3,410	400,793	-	154,619	558,822
Building repair and maintenance	28,025	-	-	50,542	78,567
Service and independent contractors	523,424	-	-	83,838	607,262
Investment counselor and other fees	98,400	-	-	-	98,400
Licenses, taxes, and assessments	5,592	18,027	-	-	23,619
Gain on sale of fixed assets	-	(25)	-	-	(25)
Bad debt expense	-	38,699	-	-	38,699
Insurance	52,371	68,120	-	-	120,491
Depreciation	-	46,519	-	28,895	75,414
Other operating costs	33,667	-	-	-	33,667
	3,401,776	572,133	-	617,999	4,591,908
Fundraising costs					
Salaries and other supplements	-	-	-	3,052,356	3,052,356
Community relations	-	-	-	280,455	280,455
Travel and per diems	-	-	-	7,341	7,341
Supplies	-	-	-	6,853	6,853
University services	-	-	-	5,559	5,559
Postage and printing	-	-	-	84,845	84,845
Licenses, taxes, and assessments	-	-	-	28,798	28,798
	-	-	-	3,466,207	3,466,207
Total	\$ 3,401,776	\$ 39,356,788	\$ 751,061	\$ 5,517,902	\$ 49,027,527

See accompanying notes.

University of South Florida Foundation, Inc.

Notes to Financial Statements

June 30, 2007

1. Summary of Significant Accounting Policies

Organization

The University of South Florida Foundation, Inc. (the Foundation) serves as the official legal conduit for the acceptance, investment and distribution of private gifts in support of the activities and programs of the University of South Florida (the University), which includes the colleges, campuses, medical center, athletic association, and other appropriate University-related groups.

Basis of Presentation

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting and are prepared under the guidance of Statements of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117, *Financial Statements of Not-for-Profit Organizations*.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- **Permanently Restricted** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the investment return on these assets. Such assets primarily include the Foundation's permanent endowment funds.
- **Temporarily Restricted** – Net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted** – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees, including quasi-endowments, or may otherwise be limited by contractual agreements with outside parties.

Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets (net assets released from restrictions) in the statements of activities and changes in net assets.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Contributions, Gifts, and Bequests

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are released from restrictions to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

The Foundation reports gifts of land, buildings, and equipment as unrestricted contributions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions as unrestricted when the donated or acquired long-lived assets are placed in service.

In the event a donor makes changes to the nature of a gift that affect its classification among the net asset categories, such amounts are reflected as net assets released from restrictions in the revenues section of the statements of activities and changes in net assets.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with original maturities of three months or less when purchased to be cash and cash equivalents.

Pooled Investments

The Foundation has created various pools for the investment of funds on a consolidated basis. Investments are carried at fair value based on published quotations from the national exchanges or over-the-counter market.

Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at date of gift. Except for investments that are not readily marketable or are held separately for specific reasons, investments are maintained in a pool. Gifts that are invested in the pool are assigned units of participation in the pool based upon their market value on the date of gift and the most recently determined unit market value for the existing units of participation. Subsequent

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

allocations of annual income of the independent pool are based upon the number of units of participation. Withdrawals are based upon the spending policy approved by the Board of Trustees and follow the total return concept of utilizing both income and realized gain. The market value of the units of participation is calculated monthly.

Investment income (including interest and dividends and realized and unrealized gains and losses) is reflected in the statements of activities and changes in net assets. Purchases and sales of investments are reflected on a settlement-date basis, which does not differ materially from the trade-date basis. The cost of investments sold is determined using the specific-identification method.

Investment earnings are recorded on the accrual basis. Net earnings (including realized and unrealized gains and losses) from endowment and restricted operating funds are recognized as temporarily restricted or permanently restricted investment income in accordance with donor stipulations. Income from all other operating funds is recognized as unrestricted investment income.

Investments Without Readily Determinable Values

Investments without readily determinable values consist of funds of funds, investments in private equity companies, and partnerships and are included with pooled investments in the statements of financial position. The underlying assets are reflected at fair value. The Foundation records these investments based on the respective ownership of each investment vehicle. Depending on the underlying asset, the fair value is determined through national exchange price for securities with a readily determinable value, valuations, and estimates typically determined by the underlying asset's manager. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

Contributions Receivable

Contributions receivable, less an allowance for uncollectible accounts, are reported at net present value using a risk-free interest rate, appropriate for the expected terms of the promise to give. Discount rates are determined at the time the unconditional promise to give is initially recognized. The rates applied for the years ended June 30, 2007 and 2006 were 5.1% and 4.9%, respectively.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Books and Art Objects

The Foundation has capitalized its books and art objects since its inception. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their appraised or fair value on the accession date (the date on which the item is accepted by the Board of Trustees). Gains or losses on the deaccession of books and art objects are classified in the statements of activities and changes in net assets as unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession.

Certain works of art internally created by Graphic Studio, The USF Institute for Research in Art, are included in the USF Contemporary Art Museum Permanent Art Collection. No value has been assigned to these works of art since there is no objective basis for determining their value.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, if purchased, and at estimated fair value, if acquired by gift. Upon retirement or disposition, the asset's carrying value and related accumulated depreciation are relieved and the resulting gain or loss is included in the statements of activities and changes in net assets.

The Foundation depreciates buildings and equipment on a straight-line basis over their estimated useful lives. Useful lives range from three to 20 years for equipment and 30 years for buildings.

Impairment of Long-Lived Assets

The Foundation evaluates the recoverability of its land, buildings, and equipment whenever adverse events or changes in the business climate indicate that the expected undiscounted future cash flows from the related asset may be less than previously anticipated.

If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount would be reduced to the present value of its expected future cash flows and an impairment loss would be recognized. No indicators of impairment existed at June 30, 2007 or 2006.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Foundation has been granted tax-exempt status under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Income earned in furtherance of the Foundation's tax-exempt purposes is exempt from federal and state income taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Other

The value of certain administrative and other support services provided to the Foundation by the University has not been reflected in the accompanying financial statements.

Reclassifications

Certain amounts in the financial statements at June 30, 2006, have been reclassified to conform to the current-year presentation. These reclassifications had no effect on net assets as previously reported.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

2. Contributions Receivable, Net

Contributions receivable are expected to be realized in the following periods:

	June 30	
	2007	2006
In one year or less	\$ 12,421,402	\$ 12,247,732
Between one year and five years	12,312,133	17,069,434
Thereafter	1,613,883	–
	26,347,418	29,317,166
Less:		
Present value discount	(1,759,502)	(2,385,113)
Allowance for uncollectible contributions	(590,206)	(948,039)
	\$ 23,997,710	\$ 25,984,014

Contributions receivable, net, are classified in the following net asset classes:

	June 30	
	2007	2006
Permanently restricted	\$ 12,336,565	\$ 12,874,682
Temporarily restricted	11,255,381	12,742,602
Unrestricted	405,764	366,730
	\$ 23,997,710	\$ 25,984,014

The Foundation participates in the State of Florida Challenge Grant program. State matching funds receivable are accrued as contributions receivable when a donor commitment is fulfilled and notice of appropriation is received from the State. Included in the receivables above for the State of Florida matching gift program is \$4,576,624 and \$4,356,790 for the fiscal years ended June 30, 2007 and 2006, respectively.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

3. Pooled Investments

Short and long-term pooled investments are carried at fair value and consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 3,004,479	\$ 1,308,775
Limited partnerships	21,806,975	13,190,685
Bond pooled investments	146,694,156	128,807,840
Stock pooled investments	275,375,885	247,160,591
	<u>\$ 446,881,495</u>	<u>\$ 390,467,891</u>

Investment earnings consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
Interest and dividends, net	\$ 11,364,225	\$ 8,755,767
Earnings of limited partnerships	4,855,392	2,350,393
Net realized gain and net change in fair value of pooled investments	52,277,431	26,314,305
	<u>\$ 68,497,048</u>	<u>\$ 37,420,465</u>

Investment expenses for the year ended June 30, 2007 and 2006, of approximately \$1,705,000 and \$1,600,000 have been netted against interest and dividends. Cost and fair value information for the Foundation's various investment funds at June 30 is summarized as follows:

	<u>2007</u>		<u>2006</u>	
	Cost	Fair Value	Cost	Fair Value
Operating fund	\$ 48,724,475	\$ 48,819,074	\$ 53,417,074	\$ 53,274,661
Endowment fund	315,077,899	371,548,068	284,245,953	319,378,556
Limited partnerships	14,378,911	21,806,975	10,460,621	13,190,684
Life income and planned giving fund	4,234,138	4,707,378	4,232,111	4,623,990
	<u>\$ 382,415,423</u>	<u>\$ 446,881,495</u>	<u>\$ 352,355,759</u>	<u>\$ 390,467,891</u>

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

4. Funds Held in Trust by Others

Funds held in trust by others represent resources neither in the possession of nor under the control of the Foundation, but held and administered by outside trustees. Such assets are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the Foundation is notified of its existence.

The Foundation has been named as the sole beneficiary of legal trusts held and administered independently by third parties. The Foundation's interest in the assets in these trusts was valued at \$6,239,318 and \$5,616,635 at June 30, 2007 and 2006, with a cost basis of \$5,033,564 and \$4,685,290, respectively.

5. Books and Art Objects

Books and art objects consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
Contemporary Art Museum Permanent Art Collection		
Donated works of art	\$ 1,998,186	\$ 1,962,286
Graphic Studio	–	2,157,647
	<u>1,998,186</u>	<u>4,119,933</u>
Other books and art objects	<u>230,740</u>	<u>238,240</u>
	<u>\$ 2,228,926</u>	<u>\$ 4,358,173</u>

During 2007, there was a change in estimate surrounding the value of works of art internally created by Graphic Studio, the USF Institute of Research in Art. The Foundation changed its capitalization criteria with respect to internally created works of art as there was no objective basis for determining their value. The reduction in value of \$2,157,647 is included in program service expenses on the statement of activities and changes in net assets.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

6. Land, Buildings, and Equipment

Land, buildings, and equipment consist of the following at June 30:

	2007	2006
Land and buildings	\$ 1,021,862	\$ 1,021,862
Equipment	365,146	482,271
Other	139,818	139,818
	1,526,826	1,643,951
Less accumulated depreciation	(840,084)	(1,066,029)
	\$ 686,742	\$ 577,922

7. Due to the University of South Florida

Due to the University of South Florida consist of the following at June 30:

	2007	2006
Courtelis Facilities Matching Gift program	\$ 7,986,572	\$ —
Interest rate swap liability (see Note 11)	124,664	213,538
	\$ 8,111,236	\$ 213,538

The Courtelis Facilities Matching Gift program liability represents private money raised to support the construction of the Joint Military Science Leadership Center, the USF Health Nursing Expansion, the USF Health Children’s Research Institute, the USF Health North Facility and the Crosley Campus Center on the Regional USF campus in Sarasota. In accordance with the State of Florida Courtelis Facilities Matching Gift Program, all private funds raised will be matched dollar for dollar by the state. The Foundation certifies to the University and the State on December 31 of each year the amount of eligible money that has been raised and can be matched by the program. During each legislative session, the legislature will appropriate funding or veto each project for matching. Once the appropriation has been made by the legislature the Foundation is obligated to transfer the funds to the University to receive the match.

During fiscal year 2006, the amount owed was due directly to the Florida Department of Education. Therefore, the liability of \$16,557,707 is classified as Due to Florida Department of Education in the Statement of Financial Position at June 30, 2006.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

8. Annuities and Life Income Trusts Payable

The Foundation is obligated under a life income trust agreement to pay a 10.5% annuity to certain unrelated beneficiaries. The Foundation is also obligated under ten charitable gift annuity agreements to pay annuities with rates ranging from 6.0% to 9.5% to third-party beneficiaries. These obligations are calculated based on actuarial assumptions and the fair values at the date of receipt. Upon the death of the donors, the trust assets shall be irrevocably transferred to the Foundation. The Foundation has recorded an annuity payable (annuities and life income trusts payable) equal to the present value of the total anticipated future payments to the beneficiaries of these trusts and annuities.

9. Agency Accounts

The Foundation is holding investments on behalf of the USF Research Foundation and Moffitt Cancer Center of approximately \$9,282,000 and \$8,255,000, at June 30, 2007 and 2006, respectively. These amounts are classified in the statements of financial position as amounts due to third-party beneficiaries.

10. Certificates of Participation Payable (Non-Recourse Transaction)

In March 2003, the Foundation approved the issuance of \$13.2 million of University of South Florida Foundation, Inc. Certificates of Participation Series 2003A to finance the construction of an athletics training facility (the Facility). The issuance of these Certificates represents an undivided interest in the right of the Foundation to receive concession funds and student fees supporting the Facility by the Board of Regents (or its legal successor) under a Master Operating Lease. The holders of the Certificates have no recourse against Foundation assets beyond revenue derived under the Master Operating Lease. The Certificates bear interest at a variable rate determined by the remarketing agent in accordance with the remarketing agreement between the Foundation and the remarketing agent and the trust indenture dated March 1, 2003. The Certificates are payable upon presentation by the certificate holders. The Foundation, as lessor, has assigned its interest in the Master Operating Lease to a third-party trustee in accordance with the Trust Indenture. The Board of Regents (or its legal successor), as lessee, has pledged the concession funds and student fees related to the Facility to the payment of principal and interest on the Certificates for the Project.

The Facility, along with an interest in the real property on which it is located, is subject to a master ground lease agreement dated March 1, 2003, between the Board of Regents (or its legal successor) for and on behalf of the University, as lessor, and the Foundation, as lessee, pursuant

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

10. Certificates of Participation Payable (Non-Recourse Transaction) (continued)

to which the Foundation acquires an interest in the Facility and a master operating lease between the Foundation, as lessor, and the Board of Regents (or its legal successor) for and on behalf of the University, as lessee, pursuant to which the Board of Regents (or its legal successor) for and on behalf of the University takes possession of the Facility. Upon termination of the ground lease, the Facility will be surrendered by the Foundation to the Board of Regents (or its legal successor) and the Foundation shall thereafter have no further interest in the Facility. Under the terms of the master operating lease for the Facility, the Board of Regents (or its legal successor) is obligated to pay concession funds and student fees to the Foundation equal to the principal and interest payments that become due on the Certificates, as well as an amount equal to all expenses associated with the ownership, operation and rental of the Facility.

Recording of Leases Receivable and Obligations Under Lease Agreements

The Foundation has recorded a lease receivable related to the Facility at June 30, 2007, as follows:

Capitalized lease receivable	\$ 15,370,170
Less deferred interest income receivable	<u>(3,175,170)</u>
Capitalized lease receivable, net	<u>\$ 12,195,000</u>

The following is a schedule by years of future minimum lease payments payable under the lease agreement, assuming a 3.343% annual rate of interest, together with the present value of minimum lease payments as of June 30, 2007. This rate is fixed through the terms of the interest rate swap agreement.

Fiscal Year Ending June 30:

2008	\$ 933,736
2009	940,434
2010	946,295
2011	951,320
2012	960,426
Thereafter	<u>10,637,959</u>
Total minimum lease payments	15,370,170
Less amounts representing interest	<u>(3,175,170)</u>
Present value of future minimum lease payments	<u>\$ 12,195,000</u>

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

11. Interest Rate Swap Agreement

On November 17, 2005, the Foundation entered into an interest rate swap agreement to limit the effect of increases in interest rates on its Certificates of Participation, Series 2003A (see Note 9). The notional principal amount of the swap agreement is \$12,710,000. The effect of the agreement is to limit the interest rate expense to 3.343% on the \$12,710,000 principal through the term of the swap agreement, which expires on December 1, 2012.

The fair value of the swap agreement is the estimated amount the Foundation would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the counterparties. The fair value of the Foundation's swap agreement at June 30, 2007, is \$124,664, and is included as a receivable in the accompanying statements of financial position. The change in the fair value of the swap agreement is (\$88,874) for the period ended June 30, 2007, and is included as a component of lease income in the statements of activities and changes in net assets.

Pursuant to the indemnification agreement with the University related to the Certificates of Participation, the University has agreed to indemnify and will hold the Foundation harmless to the net effect of the swap.

12. Administrative Fees

The Foundation charged a 2% administrative fee on endowment invested amounts for the fiscal years ended June 30, 2007 and 2006. The administrative fee rate may be reduced gradually over the next three years in order to reach a target of 1.75% for endowment funds. However, annually, the investment committee of the Board will evaluate historical performance and projected returns to determine the appropriate administrative fee. The administrative fee rate for operating funds consists of all earnings generated on those funds. During the fiscal years ended June 30, 2007 and 2006, the Foundation collected \$7,725,000 and \$7,221,000, respectively, in administrative fees. These fees cover the cost of business office operating expenses which include accounting, auditing, taxes and other related business expenses; support for fund-raising operations; management of the endowment; and assistance with other University needs.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

13. Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of its cash and cash equivalents and pooled investments. However, the Foundation maintains its cash and cash equivalents with what management believes to be high credit quality financial institutions and limits the amount of credit exposure to any one particular investment.

The Foundation has invested in investments without readily determinable values which comprise 4.4% of total assets at June 30, 2007. These investments contain underlying funds which include limited partnerships. These investments entail liquidity risks to the extent that they are difficult to sell or convert to cash quickly at favorable prices. The investment risk of these investments without readily determinable values with respect to each underlying investment will be limited to the capital committed to it by the Foundation.

14. Commitments

Leases

The Foundation has entered into various open-ended operating leases for certain automobiles expiring through 2010. Rental expense for all leases was approximately \$3,000 and \$14,000 for the years ended June 30, 2007 and 2006, respectively.

The future minimum lease payment under these leases is as follows for the year ended June 30:

2008	\$ 7,200
2009	7,200
2010	1,800
Total	<u>\$ 16,200</u>

Research Foundation

During the fiscal year ended June 30, 1999, the Foundation's Board of Trustees approved a motion for the Foundation to act as loan guarantor on a loan from a bank to the University of South Florida Research Foundation in the amount of \$13.3 million. The USF Research Foundation has borrowed a total of \$11,500,000 as of June 30, 2007, and the proceeds have been used for the acquisition of the land and development rights for a research park. Proceeds from

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

14. Commitments (continued)

leasing of the research park buildings are committed to satisfy the debt service obligations. The balance of the loan at June 30, 2007 is \$10,000,000. There has been no default on the loan or on any loan covenants related to the loan.

Letters of Credit

The Foundation has entered into letter of credit agreements with two financial institutions to cover the full amount of the outstanding principal balance of the University of South Florida Foundation, Certificates of Participation Series 2003A and Bonds Payable in the event of a demand for payment by the certificate holders or the bondholders. Under the terms of the related Reimbursement Agreement with these financial institutions, the Foundation is required to repay any amounts drawn on the letter of credit agreement immediately. As of June 30, 2007, there have been no withdrawals made pursuant to the terms of the letter of credit agreements.

15. Related Party Transactions

Employees of the University of South Florida (the University) and the USF Sun Dome Inc. (Sun Dome) perform operating functions for the Foundation. The University and the Sun Dome track, administer, and report all payroll and fringe benefit costs. The Foundation transfers funds to the University and the Sun Dome for these costs, estimating the salary costs of individuals devoting effort to the Foundation, and applying a 26% fringe benefit rate in addition to the base salary costs. The amount funded by the Foundation to the University and the Sun Dome was \$3,721,004 and \$5,421,775 for the years ended June 30, 2007 and 2006, respectively. These amounts are shown on the statements of functional expenses as salaries and other supplements for fundraising and operating costs.

The University directly paid approximately \$450,000 of salaries for University employees that performed functions for the benefit of both the University and the Foundation for fiscal years 2007 and 2006. In addition, the University recognized and reported a compensated absence liability of \$688,000 and \$658,000 for University employees devoting effort to the Foundation for fiscal years ended June 30, 2007 and June 30, 2006, respectively. These amounts are not included in the Foundation's statement of activities and changes in net assets.

SunTrust Bank serves as the Foundation's banking institution and provides custodial services for the Foundation's investments. A member of the Foundation's Board of Trustees is an Executive Vice President and Regional Senior Credit Officer of SunTrust Bank of Tampa.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

15. Related Party Transactions (continued)

Portions of the Foundation's pledge receivable balance (approximately \$7,615,127 and \$7,382,000 at June 30, 2007 and 2006, respectively) are commitments made to the Foundation by several members of the Foundation Board of Trustees. In addition, the Foundation received approximately \$600,000 and \$774,000 at June 30, 2007 and 2006, respectively, in cash contributions and stock gifts from various members of the Foundation's Board of Trustees.

The USF Foundation has interfund loans to University departments, units, and regional campuses that have funds on deposit with the Foundation. Foundation interfund loans totaled approximately \$8,208,000 and \$6,246,000 at June 30, 2007 and 2006, respectively and net to zero on the statement of financial position.

16. Restricted Net Assets

Temporarily restricted net assets at June 30, 2007 and 2006, were available for spending for the following purposes and the earnings from the permanently restricted net assets at June 30, 2007 and 2006, were available for spending for the following purposes:

Fiscal Year Ending June 30, 2007:

	Temporarily Restricted	Permanently Restricted
College program support	\$ 19,009,746	\$ —
Scholarships and fellowships	7,225,760	60,783,265
Endowed chairs and professorships	11,598,965	129,507,314
Research	5,050,202	25,770,298
Trusts	1,625,268	—
Facility improvement and equipment	10,832,840	1,225,766
General endowment	128,949,506	54,217,306
Other	3,446	—
Total	<u>\$ 184,295,733</u>	<u>\$ 271,503,949</u>

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

16. Restricted Net Assets (continued)

Fiscal Year Ending June 30, 2006:

	Temporarily Restricted	Permanently Restricted
College program support	\$ 19,180,745	\$ —
Scholarships and fellowships	7,354,302	56,029,356
Endowed chairs and professorships	11,223,140	126,642,055
Research	4,815,821	25,137,486
Trusts	1,930,662	—
Facility improvement and equipment	11,798,425	1,218,066
General endowment	77,787,603	50,161,969
Other	295	—
Total	<u>\$ 134,090,993</u>	<u>\$ 259,188,932</u>

Government Auditing Standards Report

Report of Independent Certified Public Accountants 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 Board of Trustees
University of South Florida Foundation, Inc.

We have audited the financial statements of University of South Florida Foundation, Inc. (the Foundation) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

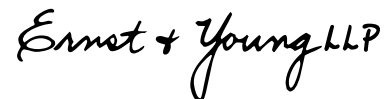
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, 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*.

This report is intended solely for the information and use of the Audit Committee, the Board of Trustees, the management of the Foundation, and the state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



October 30, 2007