



AUDITOR GENERAL
WILLIAM O. MONROE, CPA



UNIVERSITY OF SOUTH FLORIDA
Financial Audit

For the Fiscal Year Ended June 30, 2005

During the audit period, the President of the University was Dr. Judy L. Genshaft. Members of the University's Board of Trustees who served during the audit period are listed below:

Board Member

Richard A. Beard, III, Chair
Rhea F. Law, Vice Chair
Lee E. Arnold, Jr.
Elizabeth Bird, Ph.D., to 8-22-04 (1)
Steven G. Burton to 1-6-05
Margarita R. Cancio, M.D.
Bijal Chhadva to 4-29-05 (2)
Ann Wilkins Duncan to 2-20-05 (3)
Sonja Garcia
Susan Greenbaum, Ph. D., from 8-23-04 (1)
Kiran C. Patel, M.D.
John B. Ramil
Debbie Nye Sembler
Jan E. Smith from 6-9-05 (3)
Robert L. Soran
Sherrill Tomasino from 1-7-05
Maxon Victor from 4-30-05 (2)

Notes: (1) Faculty senate chair.
(2) Student body president.
(3) Ann Wilkins Duncan resigned February 20, 2005, and her replacement, Jan E. Smith, was appointed June 9, 2005.

UNIVERSITY OF SOUTH FLORIDA

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EXECUTIVE SUMMARY

The audit of the financial statements of the University of South Florida for the fiscal year ended June 30, 2005, was conducted pursuant to Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The scope of this audit included an examination of the financial statements of the University, a component unit of the State of Florida, and a determination as to whether management has complied with applicable laws, administrative rules, regulations, contracts, and grant agreements and other matters that are material to the financial statements. An examination of Federal awards administered by the University is included in our Statewide audit of Federal awards administered by the State of Florida.

The following provides a summary of the findings of our audit of the financial statements of the University:

- We found that the University's financial statements presented fairly, in all material respects, the financial positions of the University and its aggregate discretely presented component units as of June 30, 2005; the revenues, expenses, and changes in net assets; and the cash flows for the fiscal year then ended.
- We noted no matters involving the University's internal control over financial reporting and its operation that we considered to be material weaknesses.
- The results of our tests disclosed no material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This audit was made in accordance with applicable *Government Auditing Standards* issued by the Comptroller General of the United States. This audit was coordinated by Cathi Davis, CPA, and supervised by Karen J. Collington, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at redsauerbeck@aud.state.fl.us or by telephone at (850) 487-4468.

This report, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site (<http://www.state.fl.us/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of South Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2005, as shown on pages 12 through 42. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for these entities, is based solely upon the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of South Florida and of its aggregate discretely presented component units as of June 30, 2005, and the respective changes in

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

As discussed in note 2 to the financial statements, the University discontinued reporting a share of the reverse repurchase and securities lending agreements entered into by the State Treasury, in connection with the State Treasury's Special Purpose Investment Account investment pool, for the 2004-05 fiscal year pursuant to the State Treasury's interpretation of GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. This change affects the comparability of amounts reported as assets and liabilities on the statement of net assets for the 2004-05 fiscal year with amounts reported for the 2003-04 fiscal year. The University also changed its method of reporting certain Federal and State student financial aid moneys for the 2004-05 fiscal year in accordance with GASB Statements No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, and No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This change affects the comparability of amounts reported as operating and nonoperating revenues, and operating expenses, on the statement of revenues, expenses, and changes in net assets for the 2004-05 fiscal year with amounts reported for the 2003-04 fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and 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.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 5 through 11 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



William O. Monroe, CPA
February 28, 2006



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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the University of South Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2005, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. 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. Our report on the financial statements included disclosures regarding our reference to the reports of other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the University's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

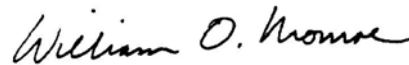
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, administrative 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 material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to University management in our operational audit report No. 2006-054, dated November 2005.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



William O. Monroe, CPA
February 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis provides an overview of the financial position and activities of the University of South Florida (University) for the year ended June 30, 2005, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) principles, GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statement Nos. 37 and 38. During the 2004-05 fiscal year, a new University direct-support organization was created, the USF Financing Corporation (see the **DEBT** section for further details). This entity is a component unit of the University, and its financial information was blended into the University financial statements. Wherever necessary, this entity's financial information was excluded from comparative information noted below in the discussion of the variances between the 2004-05 and 2003-04 fiscal years.

FINANCIAL HIGHLIGHTS**THE STATEMENT OF NET ASSETS**

The statement of net assets presents the assets, liabilities, and net assets of the University at the end of the fiscal year. The purpose of the statement of net assets is to present to readers of the financial statements a fiscal snapshot of the University of South Florida at a specific point in time. Assets are what the University owns and are measured in current value, except for property and equipment, which are recorded at historical cost less accumulated depreciation. Liabilities are generally considered to be financial obligations of the University and may also consist of payments received for service not yet provided (deferred revenue). Both assets and liabilities are classified as either current or noncurrent. This classification is made based on when an asset is expected to be converted to cash or a liability is expected to be paid off. If either of these situations is expected to take place within the upcoming year, then the asset or liability is considered to be current.

Net assets of the University are determined by subtracting liabilities from assets. This provides an indication of the overall financial condition of the University. The following table summarizes the University's assets, liabilities, and net assets as of June 30, 2005, and June 30, 2004:

Condensed Statement of Net Assets (In Thousands)		
	<u>2005</u>	<u>2004</u>
Assets		
Current Assets	\$ 501,458	\$ 403,010
Capital Assets, Net	593,745	582,827
Other Noncurrent Assets	<u>58,939</u>	<u>38,843</u>
Total Assets	<u>1,154,142</u>	<u>1,024,680</u>
Liabilities		
Current Liabilities	169,224	163,110
Noncurrent Liabilities	<u>262,410</u>	<u>188,537</u>
Total Liabilities	<u>431,634</u>	<u>351,647</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	418,987	443,509
Restricted	134,837	113,966
Unrestricted	<u>168,684</u>	<u>115,558</u>
Total Net Assets	<u>\$ 722,508</u>	<u>\$ 673,033</u>

The total assets of the University increased by \$97.6 million, excluding \$31.9 million attributable to the addition of the USF Financing Corporation discussed later in the **DEBT** section. This increase is mainly attributable to two different asset categories. Net receivables increased by \$36.7 million and the amount due from State increased by \$45.4 million.

Increases in net receivables can be almost entirely attributed to an increase in contracts and grants accounts receivable. This increase can be attributed to two factors. The first is an increase in contracts and grants revenues. The second is a result of the use of new functionality within our existing software system. We now recognize accounts receivable and revenue for fixed price grants once billing milestones are reached. The increase in the amount due from State consists of capital appropriations awarded in prior years that have not yet been received from the State as well as new capital appropriations added for this year. Some of the major additions include \$12.7 million for a Sarasota/Manatee Academic Facility, \$12.4 million for a Parking Garage, and \$25 million for the Nursing/Health Care and Education Center.

In addition to the increases noted above, there were other asset categories with changes that should be noted. While investments appear to have increased by \$3.1 million, excluding \$27.9 million attributable to the USF Financing Corporation, this is misleading. Last year, the University recognized an addition of \$62.2 million to investments to recognize adjustments for securities lending transactions and reverse repurchase agreements. This amount was also recognized as a liability. However, during this current year, the State of Florida has determined that it is more appropriate to recognize these adjustment amounts on the State of Florida financial statements.

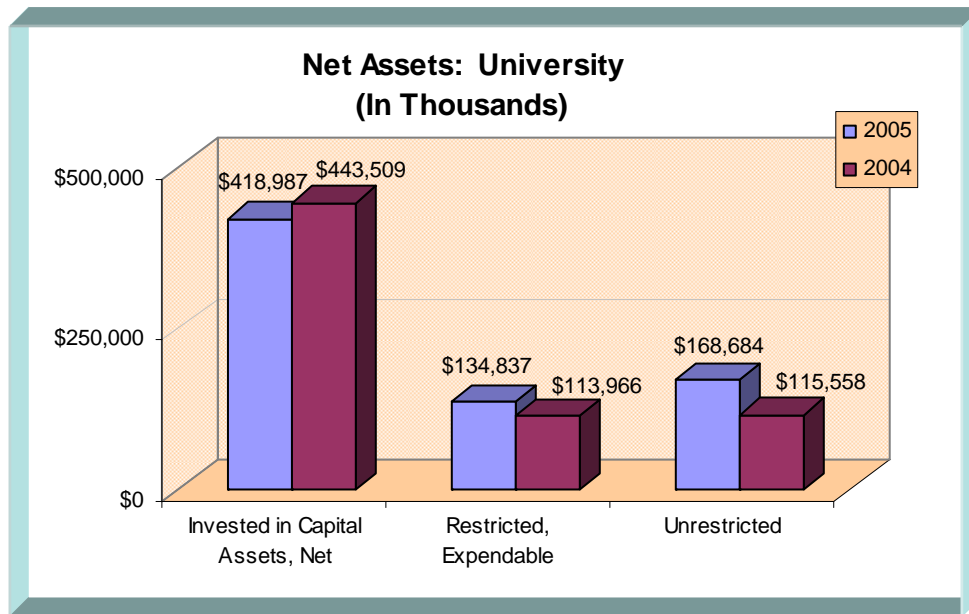
When the effect of these is removed from the 2003-04 financial statements, a real effect of a \$65.3 million increase in investments is recognized.

When taken in total, the net of both depreciable and nondepreciable capital assets increased by only \$10.9 million. However, this is misleading as a change in accounting estimate was made to recognize a decrease in the depreciable lives for buildings and building improvements (see additional discussion below in **THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS** section). The net effect of this change was to reduce net depreciable capital assets by \$45.8 million.

The total liabilities for the year increased by \$45.5 million, excluding \$34.5 million attributable to the USF Financing Corporation. A combination of factors contributed to this increase, with some items increasing and others decreasing. Accounts payable increased by \$19.7 million due to the timing of checks paid at the end of the year. Deposits payable decreased by \$14 million since the \$14.4 million recognized in the 2003-04 fiscal year that was actually a flow through to the Alzheimer's Center was paid. An increase of \$55.9 million in deferred revenue was almost entirely attributable to an increase in deferred revenue for contracts and grants. Similar to the issues related to accounts receivable, this can be attributed to two items. One of these is the increase in the amount of grants of the University and the second is the ability to recognize revenue at certain milestones for fixed grants. If revenue is recognized for these fixed price grants, yet no expenses have been incurred, this revenue is recognized as being deferred.

The combination of the increase in total assets of \$97.6 million and the increase in total liabilities of \$45.5 million resulted in a net increase in total net assets of \$52.1 million, excluding amounts attributable to the USF Financing Corporation. This increase in total net assets is mainly attributable to increases in unrestricted assets of \$53.1 million and capital projects of \$26.5 million and is offset by decreases in the amounts invested in capital assets, net of related debt of \$24.5 million, and other restricted net assets of \$9.1 million.

Net assets are reported in three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property, plant, and equipment owned by the University. Restricted net assets is another category, which may be further broken down into nonexpendable and expendable. Restricted nonexpendable net assets represent funds that have been donated to the University which are required to be invested in perpetuity. These net assets are primarily maintained within the University of South Florida Foundation, Inc., a component unit of the University. Restricted expendable net assets are available for use by the University, but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the University for any lawful purpose of the University. The following graph illustrates the comparative change in net assets by category for the 2004-05 and 2003-04 fiscal years:



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

Changes in total net assets are based on the activity presented in the statement of revenues, expenses, and changes in net assets. The purpose of this statement is to show the operating and nonoperating revenues received by the University; the operating and nonoperating expenses paid by the University; and any other revenues, expenses, gains, and losses of the University. Generally speaking, operating revenues are considered to be earned in exchange for providing goods and services to students and other customers, and operating expenses are incurred in the normal operation of the University. Nonoperating revenues are revenues received for which no goods and services have been provided. For example, State appropriations are nonoperating because they are provided by the Legislature to the University without an exchange of goods and services from the University. The University will normally show an operating loss since these significant recurring revenues (appropriations) will be classified as nonoperating. A more indicative measure of the University’s financial activity during the year would be the income (loss) before other revenues, expenses, gains, or losses.

As discussed in note 2 to the financial statements, the University changed its method of reporting certain Federal and State student financial aid moneys for the 2004-05 fiscal year in accordance with GASB Statements No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, and No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This affects the comparability of amounts reported as operating and nonoperating revenues, and operating expenditures, on the statement of revenue, expenses, and changes in net assets for the 2004-05 fiscal year with amounts reported for the 2003-04 fiscal year. The new method of reporting certain Federal and State student financial aid moneys requires that they be shown as nonoperating revenue rather than operating revenue. Additionally, receipts and disbursements of the Bright Futures Scholarship and Florida Public Student Assistant Grant programs, formerly recorded as additions and deductions in an Agency Fund, must now be reported on the statement of revenues, expenses, and changes in net assets. Those programs’ expenses must be reported as operating scholarship expenses, whereas revenues are considered nonexchange

transactions and must be reported as nonoperating revenues. The effect of these changes is that, although net income is unaffected, the net operating loss is substantially increased.

The following table shows a condensed statement of revenues, expenses, and changes in net assets for the 2004-05 and 2003-04 fiscal years:

Condensed Statement of Revenues, Expenses, and Changes in Net Assets (In Thousands)		
	<u>2004-05</u>	<u>2003-04</u>
Operating Revenues		
Student Tuition and Fees, Net	\$ 114,577	\$ 111,552
Contracts and Grants	292,892	279,960
Other Operating Revenues	<u>69,648</u>	<u>75,320</u>
Total Operating Revenues	<u>477,117</u>	<u>466,832</u>
Operating Expenses		
Compensation and Employee Benefits	520,909	489,978
Services and Supplies	151,594	157,191
Other	<u>166,285</u>	<u>95,024</u>
Total Operating Expenses	<u>838,788</u>	<u>742,193</u>
Operating Loss	<u>(361,671)</u>	<u>(275,361)</u>
Nonoperating Revenues (Expenses)		
State Appropriations	296,541	293,485
Other, Net	<u>52,888</u>	<u>(7,179)</u>
Net Nonoperating Revenues	<u>349,429</u>	<u>286,306</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(12,242)	10,945
Other Revenues	<u>61,717</u>	<u>57,731</u>
Increase in Net Assets	49,475	68,676
Net Assets, Beginning of Year	<u>673,033</u>	<u>604,357</u>
Net Assets, End of Year	<u>\$ 722,508</u>	<u>\$ 673,033</u>

The statement of revenues, expenses, and changes in net assets reflects the increase in net assets at the end of the fiscal year. Some highlights of the information presented on the statement of revenues, expenses, and changes in net assets are as follows:

- Student tuition and fees (before tuition scholarship allowances) increased by approximately \$20.6 million. There were two reasons for this increase. The first was an increase in tuition rates. In addition to the tuition increase, there was an increase of 4.5 percent in student credit hours over the previous year.
- Nongovernmental grants and contracts revenue increased by \$12.6 million from the previous year. This is partly attributable to research salary support accounts of \$7.5 million.

- Overall, operating expenses increased by \$96.6 million with the increase being attributable to three main factors. First, compensation and employee benefits increased by \$30.9 million. An increase of \$5.3 million in compensation was a result of a \$1,000 per employee bonus that was granted in December 2004. There was also a 2 percent salary increase pool created for the A&P and USPS employee classes in August 2004 and a 5 percent pool created for faculty salary increases in December 2004. Second, the University changed its method of reporting certain Federal and State student financial aid moneys for the 2004-05 fiscal year in accordance with GASB Statements Nos. 24 and 33 as noted above, which increased scholarships and fellowships expenses by \$17.3 million. Third, an adjustment was made to increase depreciation expense by \$45.8 million due to a reduction of depreciable lives for buildings from 50 years to 40 years and building improvements from 35 years to 25 years. The University made this adjustment to more closely tie the estimated lives of these assets to their true experience.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the University's financial results by reporting the major sources and uses of cash. The statement presents cash flow in four major categories: operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The following table presents a condensed statement of cash flows for the 2004-05 and 2003-04 fiscal years:

Condensed Statement of Cash Flows (In Thousands)		
	<u>2004-05</u>	<u>2003-04</u>
Cash Provided (Used) By:		
Operating Activities	\$ (253,555)	\$ (257,197)
Noncapital Financing Activities	346,115	287,484
Capital and Related Financing Activities	(7,726)	(32,545)
Investing Activities	<u>(83,210)</u>	<u>(10,042)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,624	(12,300)
Cash and Cash Equivalents, Beginning of Year	<u>240</u>	<u>12,540</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,864</u></u>	<u><u>\$ 240</u></u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2005, the University had \$593.7 million invested in capital assets, net of accumulated depreciation of \$393.2 million. Depreciation expense totaled \$87.3 million which includes a \$45.8 million adjustment due to a change in the depreciable lives of some assets.

DEBT

The University's debt structure changed significantly in the 2004-05 fiscal year due to the formation of the USF Financing Corporation. The USF Financing Corporation was established to develop stable and predictable methods of financing and planning for the acquisition, construction, reconstruction, repair, and rehabilitation of the University's physical infrastructure by implementing a comprehensive and integrated debt management system to provide an economical, efficient, and unified plan that considers the University mission, goals, and strategic

plan. Capital leases funding construction of USF Residence Halls that were formerly through the USF Foundation were replaced with Certificates of Participation issued through the USF Financing Corporation. In consideration of the USF Financing Corporation assuming this debt, the University has granted an interest in all future collections of the Residence Services Operation through the lease term.

The University has approximately \$72.3 million in outstanding bonds and revenue certificates, installment purchase agreements, and capital leases as of June 30, 2005, excluding \$142.4 million of certificates of participation attributable to the USF Financing Corporation. Of the debt issued through the USF Financing Corporation, \$63.6 million can be considered debt attributable to new projects. This includes \$28.9 million issued for a new St. Petersburg campus Residence Hall and Parking Garage and \$34.7 million issued for the construction of the new Cypress and renovated Beta Residence Halls. In consideration of the USF Financing Corporation issuing the \$28.9 million of debt, the University has granted an interest in all future collections of the St. Petersburg campus Residence Services and Parking Operations through the lease term.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

There was a significant increase in total net assets of \$97.6 million and this contributed to the sound financial position of the University. The increase would have been \$143.4 million had the University not changed the depreciable lives of its buildings and building improvements. The University continues to work on diversifying its revenue base and reducing its dependency on State appropriations. Revenues from sources other than State appropriations, such as contracts and grants revenue and student tuition and fees, showed increases in the 2004-05 fiscal year and are expected to remain strong.

FINANCIAL SECTION

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2005**

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,653,608.96	\$ 13,723,531.00
Restricted Cash and Cash Equivalents	210,649.56	7,563,781.00
Investments	252,391,090.31	41,851,351.00
Receivables, Net	130,885,895.60	58,829,425.00
Loans and Notes Receivable, Net	2,108,765.02	479,899.00
Due from State	105,238,877.41	
Due from Component Units	6,503,329.00	7,587,055.00
Inventories	321,360.70	20,991.00
Other Current Assets	2,144,255.52	13,748,496.00
Total Current Assets	501,457,832.08	143,804,529.00
Noncurrent Assets:		
Restricted Investments	51,464,764.56	338,433,812.00
Loans and Notes Receivable, Net	7,114,929.95	347,105.00
Other Noncurrent Assets	359,113.53	13,200,000.00
Depreciable Capital Assets, Net	552,391,148.78	35,126,170.00
Nondepreciable Capital Assets	41,354,152.91	12,921,932.00
Total Noncurrent Assets	652,684,109.73	400,029,019.00
Total Assets	\$ 1,154,141,941.81	\$ 543,833,548.00
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 35,464,309.48	\$ 19,528,538.00
Construction Contracts Payable	3,983,223.86	
Salaries and Wages Payable	18,706,542.85	6,291,988.00
Deposits Payable	6,228,105.58	
Due to University		6,503,329.00
Due to Component Units		7,587,055.00
Deferred Revenue	93,836,958.38	8,347,037.00
Other Current Liabilities	200,000.00	
Long-Term Liabilities - Current Portion:		
Bonds and Revenue Certificates Payable	3,189,505.51	580,000.00
Certificates of Participation Payable		490,000.00
Notes Payable		623,316.00
Installment Purchases Payable	775,685.00	
Capital Leases Payable	490,000.00	45,766.00
Estimated Insurance Claims Payable	2,039,079.48	
Compensated Absences Payable	4,310,771.45	
Total Current Liabilities	169,224,181.59	49,997,029.00

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2005

	<u>University</u>	<u>Component Units</u>
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds and Revenue Certificates Payable	\$ 53,742,358.37	\$ 45,965,000.00
Certificates of Participation Payable	142,442,656.00	12,710,000.00
Installment Purchases Payable	1,391,151.00	
Capital Leases Payable	12,710,000.00	99,051.00
Estimated Insurance Claims Payable	10,372,144.52	
Compensated Absences Payable	41,751,230.24	
Other Noncurrent Liabilities		1,050,062.00
Total Noncurrent Liabilities	<u>262,409,540.13</u>	<u>59,824,113.00</u>
Total Liabilities	<u>431,633,721.72</u>	<u>109,821,142.00</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	418,986,783.41	12,905,229.00
Restricted for Nonexpendable:		
Endowment		354,986,357.00
Restricted for Expendable:		
Debt Service	3,632,155.38	
Loans	11,128,763.28	
Capital Projects	102,287,153.45	
Other Restricted Net Assets	17,789,495.65	
Unrestricted	<u>168,683,868.92</u>	<u>66,120,820.00</u>
Total Net Assets	<u>722,508,220.09</u>	<u>434,012,406.00</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,154,141,941.81</u>	<u>\$ 543,833,548.00</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 ASSETS
For the Fiscal Year Ended June 30, 2005

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarships		
Allowances of \$41,727,252.13	\$ 114,577,469.30	\$
Federal Grants and Contracts	151,194,875.19	394,504.00
State and Local Grants and Contracts	40,502,750.91	307,913.00
Nongovernmental Grants and Contracts	101,194,193.90	42,475,031.00
Sales and Services of Educational Departments	597,471.39	
Sales and Services of Auxiliary Enterprises	62,486,199.10	
Sales and Services of Component Units		152,735,194.00
Royalties and Licensing Fees		1,429,611.00
Gifts and Donations		38,944,400.00
Interest on Loans Receivable	165,422.29	
Other Operating Revenues	6,398,325.80	2,578,934.00
Total Operating Revenues	477,116,707.88	238,865,587.00
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	520,908,898.00	127,855,577.00
Services and Supplies	151,593,849.06	95,247,257.00
Utilities	17,912,110.37	93,959.00
Scholarships and Fellowships	55,105,358.82	2,798,801.00
Depreciation	87,279,145.88	1,865,630.00
Self-Insurance Claims and Expenses	5,988,328.65	
Total Operating Expenses	838,787,690.78	227,861,224.00
Operating Income (Loss)	(361,670,982.90)	11,004,363.00
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	296,540,934.13	
Federal and State Student Financial Aid	58,444,584.72	
Investment Income	9,618,923.97	36,253,041.00
Unrealized Gains and Losses	914,622.12	
Other Nonoperating Revenues	71,945.46	4,256,341.00
Interest on Asset-Related Debt	(8,007,129.04)	(3,327,618.00)
Other Nonoperating Expenses	(8,155,044.77)	
Net Nonoperating Revenues	349,428,836.59	37,181,764.00
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(12,242,146.31)	48,186,127.00
Capital Appropriations	55,148,800.00	
Capital Grants, Contracts, and Donations	7,090,758.15	
Transfers to/from Other SUS Universities	(522,005.26)	
Increase in Net Assets	49,475,406.58	48,186,127.00
Net Assets, Beginning of Year	673,032,813.51	382,725,315.00
Adjustment to Beginning Net Assets		3,100,964.00
Net Assets, Beginning of Year, as Restated	673,032,813.51	385,826,279.00
Net Assets, End of Year	\$ 722,508,220.09	\$ 434,012,406.00

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

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2005**

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$ 115,326,898.55
Grants and Contracts	295,095,137.27
Sales and Services of Educational Departments	597,471.39
Sales and Services of Auxiliary Enterprises	65,640,444.63
Interest on Loans Receivable	170,516.82
Other Operating Receipts	6,289,618.77
Payments to Employees	(518,506,763.71)
Payments to Suppliers for Goods and Services	(157,974,952.92)
Payments to Students for Scholarships and Fellowships	(55,105,358.82)
Payments on Self-Insurance Claims and Expenses	(4,786,851.65)
Net Loans Issued to Students	(300,550.97)
	(253,554,390.64)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	296,540,934.13
Federal and State Student Financial Aid	58,444,584.72
Net Change in Funds Held for Others	3,478,318.78
Other Nonoperating Receipts	72,945.46
Operating Subsidies and Transfers	(7,090,101.99)
Other Nonoperating Expenses	(5,331,594.39)
	346,115,086.71
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	47,505,716.68
Capital Appropriations	53,633,252.00
Capital Grants and Contracts	4,180,685.28
Capital Subsidies and Transfers	(40,613,954.85)
Purchases of Capital Assets	(58,022,168.64)
Principal Paid on Capital Debt	(6,385,693.18)
Interest Paid on Capital Debt	(8,023,728.60)
	(7,725,891.31)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(92,316,118.29)
Investment Income	9,105,784.57
	(83,210,333.72)
Net Cash Used by Investing Activities	(83,210,333.72)
Net Increase in Cash and Cash Equivalents	1,624,471.04
Cash and Cash Equivalents, Beginning of Year	239,787.48
Cash and Cash Equivalents, End of Year	\$ 1,864,258.52

**UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2005**

	University
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (361,670,982.90)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	87,279,145.88
Change in Assets and Liabilities:	
Receivables, Net	(51,068,370.31)
Loans and Notes Receivable, Net	(300,550.97)
Interest Receivable	5,094.53
Inventories	(46,961.58)
Other Assets	(2,078,110.38)
Accounts Payable	13,313,554.86
Salaries and Wages Payable	3,051,392.10
Estimated Insurance Claims Payable	1,201,477.00
Compensated Absences Payable	(625,926.38)
Deferred Revenue	57,435,847.51
Other Liabilities	(50,000.00)
NET CASH USED BY OPERATING ACTIVITIES	\$ (253,554,390.64)

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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, and is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints six citizen members and the State's Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The chair of the faculty senate and the president of the student body of the University are also members. The State's Board of Education is responsible for overseeing kindergarten through graduate school education in the State. The State's 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 Florida law, State Board of Education rules, and Board of Governors rules. The Trustees select the University President and the State Board of Education ratifies the candidate selected. 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 for the University.

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

Blended Component Units. Based on the application of the criteria for determining component units, the following program and corporations are included within the University reporting entity as blended component units due to the substantial economic relationship between these entities and the University:

- The Medical Professional Liability Self-Insurance Program was created in 1972 and provides medical professional liability, comprehensive general liability, hospital professional liability, and patient's property liability covering faculty, staff, and students engaged in medical programs at the University.
- The USF Financing Corporation was created in February 2005 and operates exclusively to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University.
- The USF Property Corporation was created in February 2005 and its primary purpose is to act as lessor in connection with "lease-purchase" financings in support of the activities and educational purposes of the University. The Corporation had no financial activity during the 2004-05 fiscal year.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

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

Direct-Support Organizations. The University's direct-support organizations, as provided for in Section 1004.28, Florida Statutes, are separate, not-for-profit, corporations organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These not-for-profit corporations and their purposes are explained as follows:

- The University of South Florida Foundation, Inc., is a not-for-profit corporation to accept, invest, administer, and distribute 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., is a not-for-profit organization to foster the spirit of loyalty and fraternity among the graduates, former students and friends of the University, and to promote their continued active interest in and on behalf of the University.
- The University of South Florida Medical Services Support Corporation, Inc., has been developed to provide certain nonphysician personnel in support of the operation of facilities that the University owns or governs and utilized for the education, research, and patient care programs of the College of Medicine.
- 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 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.

Faculty Practice Plan. The University Medical Service Association, Inc., a Faculty Practice Plan as provided for in Board of Governors Rule 6C-9.017, provides educationally oriented clinical practice settings and

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

opportunities through which faculty members provide health and medical care to patients as an integral part of their academic activities and their employment as faculty. Because these faculty practice activities generate income, the University is authorized to regulate fees generated from faculty practice and maintain the Faculty Practice Plan for the orderly collection and distribution of fees.

Basis of Presentation. The University's accounting policies conform with accounting principles generally accepted in the United States applicable to colleges and universities as prescribed by the Governmental Accounting Standards Board (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 entity-wide reporting including the following components:

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

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

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

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

The University follows FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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 plant assets, and depreciation on capital assets. Nonoperating revenues include State appropriations, Federal and State student financial aid, investment income, and capital asset funding. Interest on capital asset-related debt is a nonoperating expense.

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the University and the amount that is actually paid by the student or the 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 to be third-party aid.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows for Proprietary and Non-Expendable Trust Funds*.

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists 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 and investments 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.

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

Capital Assets. University capital assets consist of land, buildings, infrastructure and other improvements, furniture and equipment, property under capital lease, library resources, works of art and historical treasures, construction in progress, and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$1,000 for all tangible personal property and \$100,000 for buildings and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings and Improvements – 15 to 40 years, Depending on Construction
- Property Under Capital Lease – 50 years
- Infrastructure and Other Improvements – 20 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Computer Software – 3 to 5 years

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of bonds and revenue certificates payable, certificates of participation payable, installment purchases payable, capital leases payable, self-insurance claims payable, and compensated absences payable that are not scheduled to be paid within the next fiscal year. Bonds and revenue certificates payable and certificates of participation payable are reported net of unamortized premiums or discounts and deferred losses on refundings. The University amortizes bond premiums and discounts over the life of the bonds and revenue certificates and certificates of participation using the straight-line method. The deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance cost paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the bonds and revenue certificates using the straight-line method.

2. REPORTING CHANGES

In prior fiscal years, the University reported a share of the reverse repurchase and securities lending agreements entered into by the State Treasury, in connection with the State Treasury's Special Purpose Investment Account (SPIA) investment pool, as an investment and corresponding liability, and made note disclosure in accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending*

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

Transactions. Currently, the State Treasury is of the opinion that since the University owns a share of the SPIA investment pool, and not the underlying securities, the University does not need to make disclosure of the reverse repurchase and securities lending agreements entered into by the State Treasury. Accordingly the University did not report an asset or liability associated with, or disclose information pertaining to, those agreements in its financial statements for the 2004-05 fiscal year.

In prior fiscal years, moneys received for Federal student financial aid relating to the Pell Grant and Supplemental Educational Opportunity Grant programs, were reported as operating revenues on the statement of revenues, expenses, and changes in net assets. However, pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, moneys received under these programs represent nonexchange transactions that should be reported as nonoperating revenues. Accordingly, for the 2004-05 fiscal year, the University began reporting moneys received under these programs as nonoperating revenues in the statement of revenues, expenses, and changes in net assets.

In prior fiscal years, moneys received and disbursed from the Florida Department of Education for the Bright Futures Scholarship and Florida Public Student Assistance Grant programs were accounted for in the Agency Fund and, as such, revenues and expenses of these programs were not reported on the statement of revenues, expenses, and changes in net assets. However, pursuant to GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, moneys received and disbursed under these programs should be reported as revenues and expenses because the University has “administrative involvement” in these programs. Accordingly, for the 2004-05 fiscal year, the University began reporting revenues and expenses for these programs. Pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, moneys received under these programs represent nonexchange transactions and, as such, are reported as nonoperating revenues on the statement of revenues, expenses, and changes in net assets.

3. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds awaiting clearing with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University’s Board of Trustees has not adopted a written investment policy. As such, pursuant to Section 218.415(17), Florida Statutes, the University is authorized to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time deposits and savings accounts in

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; and Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

The University's investments at June 30, 2005, are reported at fair value as follows:

<u>Investment Type</u>	<u>Amount</u>
External Investment Pool:	
Florida State Treasury	\$ 258,543,391.73
U.S. Government Obligations	5,577,169.00
Federal Agency Obligations	3,126,438.00
Bonds and Notes	3,020,137.50
Money Market Mutual Fund	28,084,728.47
Stocks and Other Equity Securities	5,242,079.23
Certificates of Deposit	250,000.00
Investments in State Board of Administration Debt Service Accounts	<u>11,910.94</u>
Total University Investments	<u><u>\$ 303,855,854.87</u></u>

State Board of Administration Debt Service Accounts

The University reported investments totaling \$11,910.94 at June 30, 2005, in the State Board of Administration Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. The University's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The University relies on policies developed by the State Board of Administration for managing interest rate risk or credit risk for this account. Disclosures for the debt service accounts are included in the notes to the financial statements of the State's Comprehensive Annual Financial Report.

External Investment Pool

The University had investments totaling \$258,543,391.73 at June 30, 2005, in the State Treasury Special Purpose Investment Account (SPIA) investment pool representing ownership of a share of the pool, not the underlying securities. The University's investments in the pool are reported at fair value. The State Treasury has taken the position that participants in the pool should disclose information related to interest rate risk and credit risk. The SPIA carried a credit rating of AA-f by Standard and Poor's and had an effective duration of 2.22 years at June 30, 2005. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

investment pool are included in the notes to the financial statements of the State's Comprehensive Annual Financial Report.

Other Investments

The University's blended component units, the USF Financing Corporation and the Medical Professional Liability Self-Insurance Program, invested in various debt and equity securities, money market mutual funds, and certificates of deposit. The USF Financing Corporation does not have a written investment policy. However, the investment procedures are the same as those used by the University, which are governed by Florida Statutes. The Medical Professional Liability Self-Insurance Program's investment policy allows investments in cash and cash equivalents, equities, and fixed income investments. The following risks apply to the University's blended component units' investments:

Interest Rate and Credit Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The USF Financing Corporation has no formal policy on interest rate risk. The Medical Professional Liability Self-Insurance Program investment policy limits the fixed income portfolio (United States Treasury securities, United States government agency obligations, mortgage-backed securities, corporate debt, state and municipal securities investments) to a weighted average duration of less than five years.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The USF Financing Corporation has no formal policy on credit risk. 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 and Poor's.

The following interest rate and credit risks apply to the University's blended component units' investments in debt securities and money market mutual funds at June 30, 2005:

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

Investment Type	Weighted or Effective Average Maturities	Credit Quality Range		Fair Value
		Moody's	Standard and Poor's	
U.S. Government Obligations	5.13 Years (2)	(1)	(1)	\$ 5,577,169.00
Federal Agency Obligations	6.62 Years (2)	Aaa	AAA	3,126,438.00
Bonds and Notes	3.74 Years (2)	A2-Aaa	A+-AAA	3,020,137.50
Money Market Mutual Fund	14 Days (3)	Aaa	AAAm	135,575.47
Money Market Mutual Fund	Less Than 90 Days (2)	Aaa	AAAm	27,949,153.00
Total				\$ 39,808,472.97

Notes: (1) Disclosure of credit risk is not required for this investment type.
(2) Weighted average maturity.
(3) Effective average maturity.

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 investment securities that are held by someone other than the University and not registered in the University's name. The USF Financing Corporation has no formal policy on 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 USF Financing Corporation has no formal policy on concentration of credit risk. The Medical Professional Liability Self-Insurance Program's policy provides 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 U.S. Government shall not exceed five percent 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.

Component Units Investments

Investments held by the University's component units at June 30, 2005, are reported at fair value as follows:

<u>Investment Type</u>	<u>Component Units</u>
U.S. Government Obligations	\$ 15,825,684
Bonds and Notes	112,846,339
Stocks and Other Equity Securities	248,423,473
Real Estate Agreements	350,000
Money Market Mutual Fund	2,839,667
Total Component Units Investments	\$ 380,285,163

UNIVERSITY OF SOUTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

4. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student fee deferments, various student services provided by the University, various auxiliary services provided to students and third parties, grant reimbursements due from third parties, and interest from investments.

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 Uncollectible Receivables. Allowances for uncollectible accounts, loans, and notes receivable are reported based upon management's best estimate as of fiscal year-end considering type, age, collection history, and any other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of \$6,033,683.85 and \$1,376,597.05, respectively, at June 30, 2005.

5. DUE FROM STATE

Due from State represents amounts for Public Education Capital Outlay allocations, Courtelis Capital Facilities Matching Trust Fund moneys, and bond proceeds due to the University for construction of University facilities.

6. DUE FROM/TO COMPONENT UNITS/UNIVERSITY

The \$6,503,329 reported as Due from Component Units and Due to University represents amounts owed by the University Medical Service Association, Inc., and Sun Dome, Inc. to the University for partial funding of faculty salaries at the Health Sciences Center (\$6,241,696) and moneys owed to the University for utilities of the golf course, auxiliary and baseball fields and wages and benefits for one employee (\$261,633), respectively.

The \$7,587,055 reported as Due from Component Units and Due to Component units represents the amount owed by the University of South Florida Foundation, Inc. (Foundation), to the University of South Florida Research Foundation, Inc. (Research Foundation), related to amounts being invested by the Foundation on behalf of the Research Foundation.

7. INVENTORIES

Inventories have been categorized into the following two types:

- Departmental Inventories – Those inventories maintained by departments and not available for resale. Departmental inventories are comprised of such items as classroom and laboratory supplies,

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teaching materials, and office supply items, which are consumed in the teaching and work process. These inventories are normally expensed when purchased and therefore are not reported on the statement of net assets.

- Merchandise Inventory – Those inventories maintained that are available for resale to individuals and other University departments, and are not expensed at the time of purchase. These inventories are reported on the statement of net assets, and are valued at cost using either the moving average method or the first-in first-out method.

8. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2005, is shown below:

Description	Beginning Balance	Adjustments	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 8,290,220.82	\$	\$ 2,860,313.12	\$	\$ 11,150,533.94
Construction in Progress	42,276,301.24		21,558,773.19	33,871,002.57	29,964,071.86
Historical Treasures - Works of Art	198,547.11		41,000.00		239,547.11
Total Nondepreciable Capital Assets	\$ 50,765,069.17	\$	\$ 24,460,086.31	\$ 33,871,002.57	\$ 41,354,152.91
Depreciable Capital Assets:					
Buildings	\$ 480,254,976.28	\$	\$ 159,867,629.32	\$ 2,741,635.60	\$ 637,380,970.00
Infrastructure and Other Improvements	44,297,587.84		971,217.15		45,268,804.99
Furniture and Equipment	189,587,789.78		16,442,778.99	7,799,094.89	198,231,473.88
Library Resources	27,487,553.19		1,191,633.81		28,679,187.00
Property Under Capital Lease	83,000,000.00			69,800,000.00	13,200,000.00
Other Capital Assets	21,443,516.18		1,413,231.25		22,856,747.43
Total Depreciable Capital Assets	846,071,423.27		179,886,490.52	80,340,730.49	945,617,183.30
Less, Accumulated Depreciation:					
Buildings	156,914,392.33	45,300,882.84	19,317,003.55	1,488,810.76	220,043,467.96
Infrastructure and Other Improvements	16,572,415.72		2,270,492.36		18,842,908.08
Furniture and Equipment	119,235,208.69		18,467,816.07	6,573,523.96	131,129,500.80
Library Resources	6,541,126.03		2,862,690.22		9,403,816.25
Property under Capital Lease	3,001,410.22	494,570.22	264,000.00	3,473,980.44	286,000.00
Other Capital Assets	11,744,670.37		1,775,671.06		13,520,341.43
Total Accumulated Depreciation	314,009,223.36	45,795,453.06	44,957,673.26	11,536,315.16	393,226,034.52
Total Depreciable Capital Assets, Net	\$ 532,062,199.91	\$ (45,795,453.06)	\$ 134,928,817.26	\$ 68,804,415.33	\$ 552,391,148.78

The University changed its accounting estimate for depreciating buildings from 50 years to 40 years and building improvements from 35 years to 25 years. The \$45,795,453.06 amount in the adjustment column is the cumulative effect of this change in accounting estimate for prior years.

The deletions for property under capital leases totaling \$69,800,000 and the respective accumulated depreciation amount of \$3,473,980.44 were reclassified to buildings as additions in the respective categories.

9. DEFERRED REVENUE

Deferred revenue includes Public Education Capital Outlay appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2005, to spend the funds, and amounts received from contracts and grants, and student fees, prior to fiscal year end related to

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subsequent accounting periods. As of June 30, 2005, the University reported the following amounts as deferred revenue:

Description	Amount
Contracts and Grants	\$ 89,207,166.50
Public Education Capital Outlay Funds	1,257,774.00
Student Fees	3,372,017.88
Total Deferred Revenue	\$ 93,836,958.38

10. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2005, include bonds and revenue certificates payable, certificates of participation payable, installment purchases payable, capital leases payable, self-insurance claims payable, and compensated absences payable. Long-term liabilities activity for the fiscal year ended June 30, 2005, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and Revenue Certificates Payable	\$ 58,016,031.21	\$ 15,855,119.14	\$ 16,939,286.47	\$ 56,931,863.88	\$ 3,189,505.51
Certificates of Participation Payable		142,442,656.00		142,442,656.00	
Installment Purchases Payable	1,814,151.00	1,172,546.00	819,861.00	2,166,836.00	775,685.00
Capital Leases Payable	81,705,000.00		68,505,000.00	13,200,000.00	490,000.00
Estimated Insurance Claims Payable	11,209,747.00	3,281,155.00	2,079,678.00	12,411,224.00	2,039,079.48
Compensated Absences Payable	46,687,880.85	3,153,971.02	3,779,850.18	46,062,001.69	4,310,771.45
Total Long-Term Liabilities	\$ 199,432,810.06	\$ 165,905,447.16	\$ 92,123,675.65	\$ 273,214,581.57	\$ 10,805,041.44

Bonds and Revenue Certificates Payable. Bonds and revenue certificates were issued to construct University facilities, including parking garages and academic and student service facilities. Outstanding bonds and revenue certificates, which include both term and serial bonds, are secured by a pledge of traffic and parking fees and various student fees assessments. Building and capital improvement fees, collected as part of tuition and remitted to the State Board of Education, are used to retire the revenue certificates of the academic and student service facilities.

The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

- On November 9, 2004, the State Board of Education issued \$16,000,000 of University of South Florida Parking Facility Revenue Bonds, Series 2004A. A portion of the proceeds (\$3,523,889) was used to defease \$3,340,000 of outstanding University of South Florida Parking Facility Revenue Bonds, Series 1994. Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University’s statement of net assets. As a result of the refunding, the University reduced its debt service requirement by \$445,217 over the next 12 years and

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obtained an economic gain of \$367,655. At June 30, 2005, the outstanding balance of the defeased bonds was \$3,340,000.

The University had the following bonds and revenue certificates payable outstanding at June 30, 2005:

Bond Type and Series	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Parking:				
Parking Garage 2002	\$ 12,700,000.00	\$ 11,701,994.64	3.10 - 4.75	2023
Parking Garage 2004A	<u>16,000,000.00</u>	<u>15,463,386.57</u>	2.50 - 5.00	2024
Subtotal	<u>28,700,000.00</u>	<u>27,165,381.21</u>		
Academic and Student Services Facilities:				
Bookstore Revenue 1994	8,090,000.00	5,528,905.02	5.60 - 6.00	2016
Revenue Certificate 1997	7,359,296.00	5,696,095.36	5.05 - 5.63	2022
Revenue Certificate 1997A	9,949,528.45	8,918,851.70	4.50 - 5.10	2016
Revenue Certificate 1998	1,753,377.96	1,416,690.34	4.00 - 5.00	2023
Revenue Certificate 2001	488,036.69	439,952.55	4.00 - 5.00	2026
2003A Revenue Refunding Bond	<u>9,390,369.54</u>	<u>7,765,987.70</u>	5.00	2013
Subtotal	<u>37,030,608.64</u>	<u>29,766,482.67</u>		
Total Bonds and Revenue Certificates	<u>\$ 65,730,608.64</u>	<u>\$ 56,931,863.88</u>		

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

Annual requirements to amortize all bonded debt outstanding as of June 30, 2005, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2006	\$ 3,189,505.51	\$ 2,561,998.66	\$ 5,751,504.17
2007	3,337,920.82	2,434,930.20	5,772,851.02
2008	3,530,554.54	2,301,062.88	5,831,617.42
2009	3,650,416.83	2,155,026.44	5,805,443.27
2010	3,830,198.59	1,996,229.43	5,826,428.02
2011-2015	20,020,571.81	7,260,418.85	27,280,990.66
2016-2020	11,965,516.10	3,171,131.14	15,136,647.24
2021-2025	7,388,223.98	745,115.58	8,133,339.56
2026	<u>32,213.39</u>	<u>1,530.14</u>	<u>33,743.53</u>
Subtotal	56,945,121.57	22,627,443.32	79,572,564.89
Less; Net Bond Discounts, Premiums, and Losses on Bond Refundings	<u>(13,257.69)</u>		<u>(13,257.69)</u>
Total	<u>\$ 56,931,863.88</u>	<u>\$ 22,627,443.32</u>	<u>\$ 79,559,307.20</u>

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Certificates of Participation. On May 25, 2005, the USF Financing Corporation issued \$47,995,000 Certificates of Participation Series 2005A and \$92,250,000 Certificates of Participation Series 2005B. The proceeds derived from the issuance of the certificates were used to: (1) finance the acquisition and construction of a housing and parking facility at the University of South Florida St. Petersburg campus totaling \$28,900,000; (2) pay certain expenses related to the issuance and sale of the 2005 Certificates including the financial guaranty insurance policy premium; (3) redeem the outstanding principal for the University of South Florida Housing Facility Revenue Bonds, Series 1996A, totaling \$9,150,000; and (4) redeem the outstanding principal for the Certificates of Participation Series 1999, 2000, 2002, and 2003 issued by the University of South Florida Foundation, Inc. (Foundation), totaling \$102,245,000. The Foundation's certificates financed the construction and renovation of various University of South Florida housing facilities.

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

The USF Property Corporation has entered into a Ground Lease Agreement, dated as of May 1, 2005, with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the housing and parking facilities are, or are to be, located. All of the right, title, and interest of the USF Property Corporation in the Ground Lease Agreement, including the right of the USF Property Corporation to receive lease payments; to use, sell, and relet properties; and to exercise remedies thereunder, have been irrevocably assigned by the USF Property Corporation to the Trustee. The ending date of the Ground Lease is July 2035.

In addition to the redemption of the University of South Florida Foundation, Inc., Certificates of Participation, a portion of the proceeds (\$9,614,955.46) of the Certificates of Participation, Series 2005A, were used to defease \$9,150,000 of outstanding University of South Florida Housing Facility Revenue Bonds, Series 1996A. Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability are not included in the Financing Corporation's statement of financial position or the University's statement of net assets. As a result of the refunding, the University reduced its debt service requirement by \$361,331.25 over the next 10 years and obtained an economic gain of \$404,233.09.

The 2005A Certificates were issued with interest rates ranging from 3 percent to 5.375 percent. Initially, interest on the 2005B Certificates was determined at a 7-day auction period auction rate. As of June 30,

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2005, the variable interest rate on the 2005B Certificates was 2.295 percent. The 2005A Certificates mature in 2023 and the 2005B Certificates mature in 2035.

Principal and interest payments requirements on the Certificates of Participation outstanding as of June 30, 2005, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$	\$ 2,321,433.75	\$ 2,321,433.75
2007	1,755,000.00	4,191,200.00	5,946,200.00
2008	2,030,000.00	4,130,037.50	6,160,037.50
2009	2,665,000.00	4,061,639.38	6,726,639.38
2010	2,755,000.00	3,984,481.25	6,739,481.25
2011-2015	15,310,000.00	18,453,384.38	33,763,384.38
2016-2020	18,935,000.00	14,977,893.14	33,912,893.14
2021-2025	23,795,000.00	10,436,248.13	34,231,248.13
2026-2030	29,225,000.00	6,754,471.88	35,979,471.88
2031-2035	35,725,000.00	3,041,161.88	38,766,161.88
2036	8,050,000.00	92,373.75	8,142,373.75
Subtotal	140,245,000.00	72,444,325.04	212,689,325.04
Premiums	2,197,656.00		2,197,656.00
Total	<u>\$ 142,442,656.00</u>	<u>\$ 72,444,325.04</u>	<u>\$ 214,886,981.04</u>

To reduce the USF Financing Corporation's risk of interest rate changes with respect to the Series 2005B Certificates, the USF Financing Corporation has entered into an interest rate swap agreement with a counterparty with a total notional amount of \$80,000,000 for the purpose of effectively changing the USF Financing Corporation's variable interest rate on the debt to a synthetic fixed-rate of 3.2195 percent. The USF Financing Corporation pays the counterparty a fixed payment of 3.2195 percent semi-annually and receives a variable payment monthly (67 percent of the 1 month U.S. Dollar (USD)/London Interbank Offered Rate (LIBOR)/British Bankers Association (BBA)) from the counterparty. The swap agreement expires July 1, 2015.

As of June 30, 2005, the variable interest rate on the 2005B Certificates was 2.295 percent, whereas the variable interest rate used to determine swap payments from the counterparty was 2.2378 percent. Using these interest rates, debt service requirements of the USF Financing Corporation's outstanding variable-rate debt and net swap payments are as follows (as rates vary, variable-rate bond interest payments, and net swap payments will vary):

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Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2006	\$	\$ 918,000.00	\$ 650,240.00	\$ 1,568,240.00
2007		1,836,000.00	785,360.00	2,621,360.00
2008		1,836,000.00	785,360.00	2,621,360.00
2009	575,000.00	1,829,401.88	782,537.61	3,186,939.49
2010	600,000.00	1,815,918.75	757,050.69	3,172,969.44
2011-2015	3,375,000.00	8,857,265.63	3,788,748.43	16,021,014.06
2016-2020	4,075,000.00	8,431,543.13	370,346.33	12,876,889.46
2021-2025	9,537,293.00	7,847,443.41		17,384,736.41
2026-2030	24,758,149.00	6,022,258.05		30,780,407.05
2031-2035	30,262,293.00	3,334,592.33		33,596,885.33
2036	6,817,265.00	180,204.78		6,997,469.78
Total	\$ 80,000,000.00	\$ 42,908,627.96	\$ 7,919,643.06	\$ 130,828,271.02

Because interest rates declined from the date the USF Financing Corporation entered into the swap agreement, the swap had a negative fair value of \$2,051,465 as of June 30, 2005. The fair value was obtained from a financial institution known to be an active participant in the capital markets. The swap will continue to have a negative fair value as long as current interest rates are below the original swap interest rates. The negative fair value may be countered by reductions in total interest payments required under the variable-rate bonds. Because the interest payments on the variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases.

As of June 30, 2005, the University was not exposed to credit risk on its outstanding swap because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk from its swap counterparty in the amount of the derivative's fair value.

The USF Financing Corporation or the counterparty may terminate the swap if the other party fails to perform under the terms of the agreement. If the swap is terminated, the associated variable-rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap had a negative fair value, the USF Financing Corporation would be liable to the counterparty for a payment equal to the swap's fair value. Termination of a swap agreement may also result in the University receiving a termination payment.

Installment Purchases Payable. The University has entered into several installment purchase agreements for the purchase of equipment reported at \$3,335,123. The stated interest rates ranged from zero percent to 3.59 percent. Future minimum payments remaining under installment purchase agreements and the present value of the minimum payments as of June 30, 2005, are as follows:

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<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2006	\$ 815,586.00
2007	708,551.00
2008	496,313.00
2009	<u>215,393.00</u>
Total Minimum Payments	2,235,843.00
Less, Amount Representing Interest	<u>69,007.00</u>
Present Value of Minimum Payments	<u><u>\$ 2,166,836.00</u></u>

Capital Lease Payable. The Athletic Facility building in the amount of \$13.2 million is being acquired under a capital lease agreement. The stated interest rate is 4.5 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2005, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2006	\$ 1,072,975.00
2007	1,075,362.50
2008	1,071,737.50
2009	1,072,100.00
2010	1,071,337.50
2011-2015	5,352,500.00
2016-2020	5,338,075.00
2021-2023	<u>3,190,537.50</u>
Total Minimum Payments	19,244,625.00
Less, Amount Representing Interest	<u>6,044,625.00</u>
Present Value of Minimum Payments	<u><u>\$ 13,200,000.00</u></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 Rule 6C-5.920 and USF Rules 6C4-10.104 and 6C4-10.203, and pursuant to bargaining agreements with the United Faculty of Florida. 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 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, 2005, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$46,062,001.69. The current portion of the

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compensated absences liability for the University is based on actual payouts over the last three years, calculated as a percentage of those years' total compensated absences liability.

11. STATE RETIREMENT PROGRAMS

Florida Retirement System. Most employees working in regularly established positions of the University are covered by the Florida Retirement System, a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein plan eligibility, contributions, and benefits are defined and described in detail. Participating employers include all State departments, counties, district school boards, community colleges, and universities. Many municipalities and special districts have elected to be participating employers. Essentially, all regular employees of participating employers are eligible to enroll as members of the Plan.

The Florida Legislature reduced the vesting period of the Plan from 10 to 6 years of service effective July 1, 2001. Any member employed in a regularly established position as of July 1, 2001, with a total of 6 or more years of creditable service is considered vested. Former members who were not employed with a participating Plan employer on July 1, 2001, must return to covered employment for one year to become eligible for the six-year vesting provision. An exception to this one-year requirement applies to former members who are within one year of vesting under the pre-2001 vesting requirements. These members will only be required to work the lesser of one year or the amount of time it would have taken to vest in their class of membership prior to July 1, 2001. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (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 a Florida Retirement System employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During DROP participation, deferred monthly benefits are held in the Florida Retirement System Trust Fund, and accrue

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interest. Upon termination of employment, the participant receives the total DROP benefits and begins to receive previously determined retirement benefits.

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

The State of Florida establishes contribution rates for Plan members. Contribution rates during the 2004-05 fiscal year are presented below:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	7.39
Florida Retirement System, Special Risk	0.00	18.53
Florida Retirement System, Senior Management Services	0.00	9.37
Teacher's Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plans	0.00	9.11
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance supplement. Also, employer rates, other than for DROP participants, include .08 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The University's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions to the Plan (including employee contributions) for the fiscal years ended June 30, 2003, June 30, 2004, and June 30, 2005, totaled \$9,271,896, \$11,065,036, and \$10,525,360, respectively, which were equal to the required contributions for each fiscal year.

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

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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 Florida Retirement System, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant 10.43 percent of the participant's salary. A small amount remains in the Optional Retirement Program Trust Fund for administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by salary deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account.

There were 2,845 University participants during the 2004-05 fiscal year. Required contributions made to the Program totaled \$28,056,677, including \$8,813,787 from employee contributions.

Public Employee Optional Retirement Program. Pursuant to Section 121.4501, Florida Statutes, the Florida Legislature created a Public Employee Optional Retirement Program (PEORP), also known as the Florida Retirement System (FRS) Investment Program. The PEORP is a defined contribution plan, sponsored by the State of Florida, available as an option to the FRS defined benefit plan, and is self-directed by the employee. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. A retirement account is established for each employee who selects this option and an employer contribution is directed to the individual account. The employees have the responsibility of selecting how their funds are invested within the approved set of investment choices and may take their funds when they leave the Florida Retirement System. With each pay period, the University contributes a percentage (same as the FRS rate) of the participating employees' earnings to an annuity plan. Pension benefits are determined by the dollars in the account at the time of retirement.

There were 434 University participants during the 2004-05 fiscal year. Required contributions made to the PEORP totaled \$1,008,012.

12. POST-EMPLOYMENT BENEFITS

Pursuant to Section 112.363, Florida Statutes, the Florida Legislature established the Retiree Health Insurance Subsidy (HIS) to assist retirees of all State-administered retirement systems in paying health insurance costs. During the 2004-05 fiscal year, the HIS program was funded by required contributions consisting of 1.11 percent assessed against the payroll for all active employees covered in State-administered

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retirement systems. This assessment is included in the Florida Retirement System contribution rates presented in note 11.

Eligible retirees, spouses, or financial dependents under any State-administered retirement system must provide proof of health insurance coverage, which can include Medicare. During the 2004-05 fiscal year, participants received an extra \$5 per month for each year of creditable service completed at the time of retirement; however, no eligible retiree or beneficiary may receive a subsidy payment of more than \$150 or less than \$30. If contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

13. CONSTRUCTION COMMITMENTS

The University’s major construction commitments at June 30, 2005, are as follows:

	Amount
Total Estimated Cost	\$ 142,731,882.33
Amount Expended	29,964,071.86
Estimated Amount Committed	\$ 112,767,810.47

14. RISK MANAGEMENT PROGRAMS

State Self-Insurance Programs. Pursuant to Section 1001.72(3), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, and fleet automotive liability. During the 2004-05 fiscal year, the State retained the first \$2,000,000 of losses for each occurrence with an annual aggregate retention of \$40,000,000 for wind and flood and \$5,000,000 for perils other than wind and flood. Losses in excess of \$2,000,000 per occurrence were commercially insured up to \$85,000,000 for wind, \$50,000,000 for flood, and \$200,000,000 for perils other than wind and flood; and losses exceeding those amounts were retained by the State. Payments on tort claims are limited to \$100,000 per person and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. There have been no significant reductions in insurance coverage from the prior year coverage. Settlements have not exceeded insurance coverage during the past three years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain health care 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

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through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State’s group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

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

The Program’s retained risks range from payments on tort claims limited to \$100,000 per claim and \$200,000 per occurrence to \$3 million per occurrence for professional liability up to an aggregate of \$9 million for all payments made on claims arising during the fiscal year. Losses in excess of the individual and aggregate amounts, up to \$24 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, 2004, and June 30, 2005, are presented in the following table:

Fiscal Year Ended June 30	Beginning of Fiscal Year Liability	Claims and Changes in Estimate	Claim Payments	Liability Balance at Fiscal Year End
2004	\$ 10,489,478	\$ 3,420,696	\$ (2,700,427)	\$ 11,209,747
2005	11,209,747	3,281,155	(2,079,678)	12,411,224

15. LITIGATION

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

16. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

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however, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 231,439,534.42
Research	179,159,205.04
Public Service	8,307,192.32
Academic Support	79,590,231.18
Student Services	24,087,271.51
Institutional Support	61,409,215.59
Operations of Plant	34,777,309.96
Scholarships	57,903,047.57
Auxiliary Enterprises	74,629,348.78
Depreciation	87,279,145.88
Loan Operations	206,188.53
Total Operating Expenses	\$ 838,787,690.78

17. SEGMENT INFORMATION

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

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Condensed Statement of Net Assets

	Parking Facility Revenue Bonds
Assets	
Current Assets	\$ 17,629,866.59
Capital Assets, Net	22,682,143.58
Other Noncurrent Assets	4,369,422.11
Total Assets	44,681,432.28
Liabilities	
Current Liabilities	1,538,941.91
Noncurrent Liabilities	26,277,923.76
Total Liabilities	27,816,865.67
Net Assets	
Invested in Capital Assets, Net of Related Debt	7,717,916.52
Restricted - Expendable	4,369,248.75
Unrestricted	4,777,401.34
Total Net Assets	\$ 16,864,566.61

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

	Parking Facility Revenue Bonds
Operating Revenues (Expenses):	
Parking Fees and Fines	\$ 9,155,704.56
Depreciation Expenses	(1,140,136.18)
Other Operating Expenses	(5,208,361.22)
Operating Income	2,807,207.16
Net Nonoperating Expenses	(647,927.18)
Income Before Transfers	2,159,279.98
Other Revenues, Expenses, Gains, or Losses	13,851.88
Increase in Net Assets	2,173,131.86
Net Assets, Beginning of Year	14,691,434.75
Net Assets, End of Year	\$ 16,864,566.61

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Condensed Statement of Cash Flows

	<u>Parking Facility Revenue Bonds</u>
Net Cash Provided (Used) by:	
Operating Activities	\$ 3,736,285.48
Noncapital Financing Activities	13,851.88
Capital and Related Financing Activities	(7,266,180.70)
Investing Activities	3,501,402.35
Net Decrease in Cash and Cash Equivalents	(14,640.99)
Cash and Cash Equivalents, Beginning of Year	15,830.64
Cash and Cash Equivalents, End of Year	\$ 1,189.65

18. PRIOR PERIOD ADJUSTMENTS – COMPONENT UNITS

Adjustments to beginning net assets were reported in accordance with Accounting Principles Board Opinion Nos. 9 and 20, and FASB Statement No. 16, only when amounts were considered material. Nonmaterial adjustments were reported in current year operations. A \$3,100,964 adjustment to beginning net assets reported in the statement of revenues, expenses, and changes in net assets was made to increase the component units' (University Medical Service Association, Inc.) beginning net asset balance to account for contracts and grants revenues, and related receivables, not recognized in the prior year.:

19. COMPONENT UNITS

The University has six 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 unit column of the financial statements. The following financial information is from the most recently available audited financial statements of the component units:

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	Direct-Support Organizations					Total Direct- Support Organizations	Other Component Unit University Medical Service Association, Inc.	Total
	University of South Florida Alumni Association, Inc.	University of South Florida Foundation, Inc.	University of South Florida Medical Services Support Corporation, Inc.	University of South Florida Research Foundation, Inc.	Sun Dome, Inc.			
Condensed Statement of Net Assets								
Assets:								
Current Assets	\$ 427,706	\$ 68,358,545	\$ 9,772,997	\$ 25,497,735	\$ 1,423,542	\$ 105,480,525	\$ 38,324,004	\$ 143,804,529
Capital Assets, Net	951	4,979,737		38,675,638	466,341	44,122,667	3,925,435	48,048,102
Other Noncurrent Assets	2,086,306	311,077,725		6,868,195		320,032,226	31,948,691	351,980,917
Total Assets	2,514,963	384,416,007	9,772,997	71,041,568	1,889,883	469,635,418	74,198,130	543,833,548
Liabilities:								
Current Liabilities	792,530	12,078,876	4,485,671	14,810,885	1,540,915	33,708,877	16,288,152	49,997,029
Noncurrent Liabilities		13,630,000		45,045,000	109,551	58,784,551	1,039,562	59,824,113
Total Liabilities	792,530	25,708,876	4,485,671	59,855,885	1,650,466	92,493,428	17,327,714	109,821,142
Net Assets:								
Invested in Capital Assets, Net of Related Debt	951	4,979,737		5,430,061	239,417	10,650,166	2,255,063	12,905,229
Restricted	194,487	351,656,101	3,135,769			354,986,357		354,986,357
Unrestricted	1,526,995	2,071,293	2,151,557	5,755,622		11,505,467	54,615,353	66,120,820
Total Net Assets	\$ 1,722,433	\$ 358,707,131	\$ 5,287,326	\$ 11,185,683	\$ 239,417	\$ 377,141,990	\$ 56,870,416	\$ 434,012,406
Condensed Statement of Revenues, Expenses, and Changes in Net Assets								
Operating Revenues	\$ 1,416,323	\$ 37,528,077	\$ 37,721,281	\$ 15,333,022	\$ 5,885,987	\$ 97,884,690	\$ 140,980,897	\$ 238,865,587
Operating Expenses	1,515,709	34,058,742	36,909,734	15,363,151	5,976,301	93,823,637	134,037,587	227,861,224
Operating Income (Loss)	(99,386)	3,469,335	811,547	(30,129)	(90,314)	4,061,053	6,943,310	11,004,363
Net Nonoperating Revenues (Expenses)	192,122	34,282,588		1,812,414	(3,102)	36,284,022	897,742	37,181,764
Increase (Decrease) in Net Assets	92,736	37,751,923	811,547	1,782,285	(93,416)	40,345,075	7,841,052	48,186,127
Net Assets, Beginning of Year	1,629,697	320,955,208	4,475,779	9,403,398	332,833	336,796,915	45,928,400	382,725,315
Adjustment to Beginning Net Assets							3,100,964	3,100,964
Net Assets, Beginning of Year, as Restated	1,629,697	320,955,208	4,475,779	9,403,398	332,833	336,796,915	49,029,364	385,826,279
Net Assets, End of Year	\$ 1,722,433	\$ 358,707,131	\$ 5,287,326	\$ 11,185,683	\$ 239,417	\$ 377,141,990	\$ 56,870,416	\$ 434,012,406

20. SUBSEQUENT EVENTS

On January 4, 2006, the USF Financing Corporation issued Certificates of Participation, Series 2005C, totaling \$40 million. The Series 2005C certificates will be used to fund the construction of a new replacement student union facility (the Marshall Center) on the Tampa campus. The obligation of the USF Financing Corporation to make principal and interest payments on the certificates is limited solely to pledged revenues. Pledged revenues include Marshall Center user fees, the allocable portion of the activity and service fees, and any retail or rental revenue earned from the operation of the Marshall Center.