



**AUDITOR GENERAL**  
WILLIAM O. MONROE, CPA



**UNIVERSITY OF SOUTH FLORIDA**

Financial Audit

For the Fiscal Year Ended June 30, 2006

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:

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Vice Chair to 5-31-06  
John B. Ramil, Vice Chair from 6-1-06  
Richard A. Beard, III, Chair to 5-31-06  
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Kiran C. Patel, M.D.  
Debbie Nye Sembler  
Jan E. Smith  
Robert L. Soran  
Sherrill Tomasino  
Maxon Victor to 5-7-06 (2)

Notes: (1) Faculty senate chair.  
(2) Student body president.

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**EXECUTIVE SUMMARY**

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The audit of the financial statements of the University of South Florida for the fiscal year ended June 30, 2006, 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, 2006; 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This audit was coordinated by Elba M. Guzik, 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 [tedsauerbeck@aud.state.fl.us](mailto:tedsauerbeck@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.



WILLIAM O. MONROE, CPA  
AUDITOR GENERAL

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

## INDEPENDENT AUDITOR'S REPORT 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, 2006, as shown on pages 15 through 45. These financial statements are the responsibility of University 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.

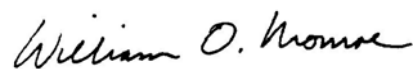
In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of South Florida and of its aggregate discretely presented component units as of June 30, 2006, 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 the USF Financing Corporation and the USF Property Corporation as blended component units on the financial statements for the 2005-06 fiscal year and reported them as discretely presented component units. This change affects the comparability of amounts reported as assets and liabilities on the statement of net assets, and amounts reported as nonoperating revenues and expenses on the statement of revenues, expenses, and changes in net assets, for the 2005-06 fiscal year with amounts reported for the 2004-05 fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of University of South Florida'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 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 14 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 26, 2007



WILLIAM O. MONROE, CPA  
AUDITOR GENERAL

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

## INDEPENDENT AUDITOR'S REPORT 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 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, 2006, 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

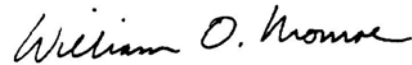
In planning and performing our audit, we considered the University's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the University's internal control over financial 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 26, 2007

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The following management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University of South Florida (University) for the fiscal year ended June 30, 2006, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

**FINANCIAL HIGHLIGHTS**

The University's assets totaled \$1.1 billion at June 30, 2006. This balance reflects a \$27.5 million, or 2.4 percent, decrease from the 2004-05 fiscal year. However, liabilities decreased by \$62.8 million, or 14.6 percent, totaling \$368.8 million at June 30, 2006, compared to \$431.6 million at June 30, 2005. As a result, the University's net assets increased by \$35.3 million, reaching a year end balance of \$757.8 million.

The University's operating revenues totaled \$480.3 million for the 2005-06 fiscal year, representing a .7 percent increase over the 2004-05 fiscal year due mainly to an increase in student tuition and fees and a slight increase in enrollment. Operating expenses totaled \$863 million for the 2005-06 fiscal year, representing an increase of 2.9 percent over the 2004-05 fiscal year due mainly to an increase in compensation and employee benefits.

**OVERVIEW OF FINANCIAL STATEMENTS**

Pursuant to GASB Statement No. 35, the University's financial report includes three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. These component units include: University of South Florida Foundation, Inc.; University of South Florida Alumni Association, Inc.; University of South Florida Medical Services Support Corporation; Sun Dome, Inc.; University of South Florida Research Foundation, Inc.; USF Financing Corporation; USF Property Corporation; and the University Medical Service Association, Inc.

Information regarding these component units, including summaries of their separately issued financial statements, is presented in the notes to the financial statements. This MD&A focuses on the University, excluding the component units. MD&A information regarding component units is included in their separately issued audit reports.

**THE STATEMENT OF NET ASSETS**

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

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

<b>Condensed Statement of Net Assets (In Thousands)</b>		
	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current Assets	\$ 462,649	\$ 501,458
Capital Assets, Net	612,216	593,745
Other Noncurrent Assets	<u>51,758</u>	<u>58,939</u>
<b>Total Assets</b>	<u>1,126,623</u>	<u>1,154,142</u>
<b>Liabilities</b>		
Current Liabilities	238,019	169,224
Noncurrent Liabilities	<u>130,775</u>	<u>262,410</u>
<b>Total Liabilities</b>	<u>368,794</u>	<u>431,634</u>
<b>Net Assets</b>		
Invested in Capital Assets		
Net of Related Debt	443,217	418,987
Restricted	133,340	134,837
Unrestricted	<u>181,272</u>	<u>168,684</u>
<b>Total Net Assets</b>	<u>\$ 757,829</u>	<u>\$ 722,508</u>

The University's assets totaled \$ 1.1 billion at June 30, 2006. This balance reflects a \$27.5 million, or 2.4 percent decrease from the 2004-05 fiscal year. This decrease is attributable to a decrease in current assets of \$38.8 million, an increase in capital assets of \$18.5 million, and a decrease in other noncurrent assets of \$7.2 million.

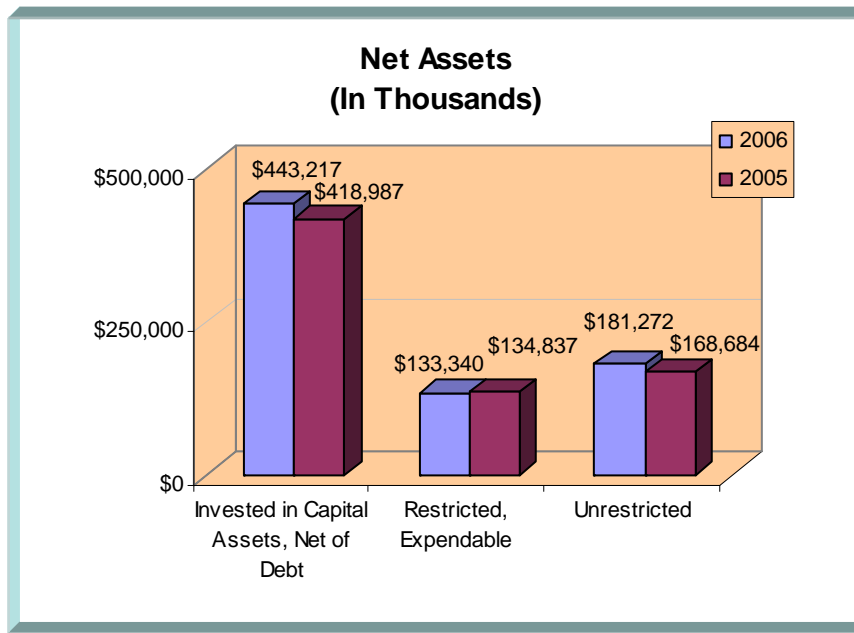
Current assets were impacted by a change in reporting for the USF Financing Corporation as discussed in note 2 to the financial statements. Due to a change in circumstances, the University has changed reporting for the USF Financing Corporation from a blended component unit to a discretely presented component unit. The result of this change is the removal of the USF Financing Corporation activity from the University's column on the financial statements and its addition to the component units column. Current investments for the University increased a total of \$42.9 million between the two fiscal years; however, this amount is reflected on the financial statements as a smaller increase due to the inclusion of \$27.9 million in USF Financing Corporation investments in the 2004-05 fiscal year total, leaving a net total increase in current investments of \$15 million. Accounts receivable decreased by a total of \$34.7 million. This was mainly attributable to a reduction in contracts and grants receivable of \$33 million. Amounts due from the State and University component units decreased by \$16.6 million as a result of a reduction in funds due from the State for construction and the correction of errors in the University Medical Service Association, Inc.'s, prior fiscal year financial statements.

Net capital assets increased by \$18.5 million primarily from an increase in construction in progress. The decrease of \$7.2 million in other noncurrent assets is primarily attributable to a reduction in investments in the construction and agency funds of the University.

Total current liabilities increased by \$68.8 million and were offset by a decrease in noncurrent liabilities of \$131.6 million, leaving a \$62.8 million net decrease in total liabilities for the year. A combination of factors contributed to the increase in current liabilities, with some items increasing and others decreasing. The major item relates to the USF Financing Corporation unblending (discussed above) as the University now recognizes current liabilities of \$105 million for amounts owed to the USF Financing Corporation for past University debt refinanced through the USF Financing Corporation and current construction funding received through the State. In addition, there is a corresponding decrease in noncurrent liabilities of \$142.4, which removes the USF Financing Corporation certificates of participation payable from the University and includes it in the component unit column on the statements of net assets. This decrease in noncurrent liabilities (related to the USF Financing Corporation reporting changes) was offset by an increase in the noncurrent portion of compensated absences of \$8.9 million, which occurred due to accumulating this information in an automated system instead of a manual system. Other changes to current liabilities included a decrease in accounts payable of \$24.8 million due to the timing of checks and invoices paid at the end of the year and the removal of the USF Financing Corporation, an increase in accrued salaries and wages payable of \$4.6 million due to the addition of payroll days accrued between the two fiscal years, an increase in deposits payable of \$2.3 million, and a decrease of \$20.6 million in deferred revenue due almost entirely to contracts and grants.

This combination of a decrease in total assets of \$27.5 million and a decrease in total liabilities of \$62.8 million resulted in a net increase in total net assets of \$35.3 million. This increase in total net assets is attributable to increases in the net asset categories of unrestricted assets of \$12.6 million, capital assets, net of related debt of \$24.2 million, debt service of \$3.9 million, and a decrease in other restricted funds of \$5.4 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 are 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 that 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 2005-06 and 2004-05 fiscal years:



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

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

The following summarizes the University’s activity for the 2005-06 and 2004-05 fiscal years:

	2005-06	2004-05
Operating Revenues	\$ 480,310	\$ 477,117
Operating Expenses	862,993	838,788
<b>Operating Loss</b>	(382,683)	(361,671)
Net Nonoperating Revenues	370,167	349,429
<b>Loss Before Other Revenues, Expenses, Gains, or Losses</b>	(12,516)	(12,242)
Other Revenues, Expenses, Gains, or Losses	47,837	61,717
<b>Net Increase in Net Assets</b>	35,321	49,475
Net Assets, Beginning of Year	722,508	673,033
<b>Net Assets, End of Year</b>	<u>\$ 757,829</u>	<u>\$ 722,508</u>

### Operating Revenues

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

The following summarizes the operating revenues by source that were used to fund operating activities during the 2005-06 and 2004-05 fiscal years:

<b>Operating Revenues (In Thousands)</b>		
	<u>2005-06</u>	<u>2004-05</u>
Net Tuition and Fees	\$ 124,251	\$ 114,577
Grants and Contracts	284,731	292,892
Sales and Services of Auxiliary Operations	64,293	62,486
Sales and Services of Educational Departments	657	598
Other	<u>6,378</u>	<u>6,564</u>
<b>Total Operating Revenues</b>	<b><u>\$ 480,310</u></b>	<b><u>\$ 477,117</u></b>

Total operating revenues increased by \$3.2 million with the change being attributable to two factors. Student tuition and fees (after tuition scholarship allowance) increased by \$9.7 million due to an increase in in-state tuition rates of 4.6 percent and a slight increase in student credit hours over the previous fiscal year. Also, grants and contracts revenue decreased by \$8.2 million due to a reduction in State and local government, and nongovernmental, grants and contracts.

### Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the University's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net assets and has displayed the functional classification in the notes to financial statements.

The following summarizes the operating expenses by natural classifications for the 2005-06 and 2004-05 fiscal years:

<b>Operating Expenses (In Thousands)</b>		
	<u>2005-06</u>	<u>2004-05</u>
Compensation and Employee Benefits	\$ 573,736	\$ 520,909
Services and Supplies	161,367	151,594
Utilities	20,280	17,912
Scholarships and Fellowships	58,098	55,106
Depreciation	43,603	87,279
Self-Insurance Claims and Expenses	5,909	5,988
<b>Total Operating Expenses</b>	<b><u>\$ 862,993</u></b>	<b><u>\$ 838,788</u></b>

Total operating expenses increased by \$24.2 million with the change being attributable to several factors. Compensation and employee benefits increased by \$52.8 million. A 3.6 percent increase in salaries took place August 1, 2005. In addition, the accrual for compensated absences increased by \$9.9 million due to accumulating this information in an automated system instead of a manual system. This \$9.9 million increase is recognized as a salary expense. Services and supplies increased \$9.8 million along with increases for both utilities and scholarships and fellowships of \$2.4 million and \$3 million, respectively. These increases were offset by a decrease in depreciation expense of \$43.7 million due to a change in accounting estimate that had occurred in the 2004-05 fiscal year. The adjustment in the 2004-05 fiscal year reduced the depreciable lives for buildings from 50 years to 40 years and building improvements from 35 years to 25 years and had increased the 2004-05 fiscal year depreciation by \$45.8 million.

### **Nonoperating Revenues and Expenses**

Certain revenue sources that the University relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2005-06 and 2004-05 fiscal years:

<b>Nonoperating Revenues (Expenses) (In Thousands)</b>		
	<u>2005-06</u>	<u>2004-05</u>
State Appropriations	\$ 319,341	\$ 296,541
Federal and State Student Financial Aid	61,685	58,445
Investment Income	3,021	10,533
Other Nonoperating Revenues	720	72
Interest on Capital Asset-Related Debt	(3,174)	(8,007)
Other Nonoperating Expenses	(11,426)	(8,155)
<b>Net Nonoperating Revenues</b>	<b><u>\$ 370,167</u></b>	<b><u>\$ 349,429</u></b>

Total nonoperating revenues (expenses) increased by \$20.7 million, which was primarily from an increase in State appropriations of \$22.8 million, or 7.7 percent. With the change in accounting for the activity of the USF Financing Corporation, there was a decrease in interest on asset-related debt of \$4.8 million since this debt is now reflected in the component units column of the financial statements. Lastly, unrealized gains and losses decreased by \$7.8 million caused by an adjustment of investments to fair market value.

### Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and capital grants, contracts, and donations. The following summarizes the University's other revenues, expenses, gains, or losses for the 2005-06 and 2004-05 fiscal years:

<b>Other Revenues, Expenses, Gains, or Losses (In Thousands)</b>		
	<u>2005-06</u>	<u>2004-05</u>
Capital Appropriations	\$ 39,179	\$ 55,149
Capital Grants, Contracts, and Donations	8,424	7,090
Transfers From/To Other SUS Universities	<u>234</u>	<u>(522)</u>
<b>Total</b>	<u><u>\$ 47,837</u></u>	<u><u>\$ 61,717</u></u>

Total other revenues decreased \$13.9 million due to a reduction in funding of \$16 million for capital appropriations; a small increase in capital grants, contracts and donations in the amount of \$1.3 million; and an increase in transfers from/to other SUS universities of \$.8 million.

### THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the University's financial results by reporting the major sources and uses of cash. This statement will assist in evaluating the University's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from the capital financing activities include all plant funds and related long-term debt activities. Cash flows from the investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from the noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2005-06 and 2004-05 fiscal years:

<b>Condensed Statement of Cash Flows (In Thousands)</b>		
	<u>2005-06</u>	<u>2004-05</u>
<b>Cash Provided (Used) by:</b>		
Operating Activities	\$ (323,307)	\$ (253,555)
Noncapital Financing Activities	367,270	346,115
Capital and Related Financing Activities	(39,642)	(7,726)
Investing Activities	<u>(3,181)</u>	<u>(83,210)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,140	1,624
Cash and Cash Equivalents, Beginning of Year	<u>1,864</u>	<u>240</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 3,004</u>	<u>\$ 1,864</u>

Major sources of operating activities included net student tuition and fees (\$120.4 million), grants and contracts (\$294.8 million), and sales and services of auxiliary enterprises (\$66.7 million). Included in the calculation of net cash used for operating activities are payments to employees (\$559.2 million) and payments to suppliers (\$192 million). These are the two major outflows of operating activities. The net cash used for operating activities increased by \$69.8 million. The reasons for this change were mainly increases in both payments to employees and payments to suppliers in the amount of \$40.7 million and \$34 million, respectively, offset by an increase in tuition and fees collection of \$5.1 million.

The net cash provided by noncapital financing activities consists primarily of \$319.3 million of State appropriations received during the 2005-06 fiscal year.

Cash used by capital and related financing activities increased by \$32 million. This was mainly due to increases in payments made for the purchase or construction of capital assets in the amount of \$59.6 million, decreases in capital appropriations in the amount of \$10.8 million, and payment of principal and interest paid on capital debt in the amount of \$6.8 million. Debt payments decreased due to the unblending of the USF Financing Corporation.

Cash used by investing activities decreased by \$80 million. The decrease was mainly due to the unblending of the USF Financing Corporation (\$27.9 million) and a decrease in purchase of investments (\$43.8 million).

## **CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION**

### **CAPITAL ASSETS**

At June 30, 2006, the University had \$1.04 billion in capital assets, less accumulated depreciation of \$427.3 million, for net capital assets of \$612.2 million. Depreciation charges for the current fiscal year totaled \$43.6 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

<b>Capital Assets, Net (In Thousands)</b>		
	2006	2005
Land	\$ 11,151	\$ 11,151
Buildings	404,398	417,338
Infrastructure and Other Improvements	24,174	26,426
Furniture and Equipment	63,911	67,102
Library Resources	17,502	19,275
Property Under Capital Lease	12,650	12,914
Historical Treasures - Works of Art	375	239
Other Capital Assets	9,888	9,336
Construction in Progress	68,167	29,964
<b>Total Capital Assets, Net</b>	<b>\$612,216</b>	<b>\$593,745</b>

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

#### **CAPITAL EXPENSES AND COMMITMENTS**

Major capital expenses through June 30, 2006, were incurred on the following projects: Parking Garage III (\$9 million), USF Healthcare Facilities (\$25.6 million), and the Crosley Center (\$12.8 million). The following table summarizes the University's major capital commitments as of June 30, 2006:

<b>Capital Expense Commitments (In Thousands)</b>		
Current Commitment	Expenses	Commitment Balance
<u>\$ 164,295</u>	<u>\$ 68,167</u>	<u>\$ 96,128</u>

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

#### **DEBT ADMINISTRATION**

As of June 30, 2006, the University had \$72.3 million in outstanding bonds and revenue certificates, capital leases, and installment purchase agreements, representing a decrease of \$142.5 million, or 66.3 percent, from the prior fiscal year. This reduction was the result of reporting the debt of the USF Financing Corporation as a discretely presented component unit. The University has an amount of \$105 million due to the USF Financing Corporation in consideration of debt that has been issued on the University's behalf. Of the debt issued through the USF Financing Corporation, \$41.6 million can be considered debt attributable to new projects related to the University as it is for the construction of the new USF Student Center (known as the Marshall Center). The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

<b>Long-Term Debt, at June 30 (In Thousands)</b>		
	2006	2005
Bonds and Revenue Certificates	\$ 58,178	\$ 56,932
Certificates of Participation		142,442
Installment Purchases	1,391	2,167
Capital Leases	12,710	13,200
<b>Total</b>	<b>\$ 72,279</b>	<b>\$ 214,741</b>

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

### **ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

The budget that the Florida Legislature adopted for the State University System for the 2006-07 fiscal year provided a 8.2 percent increase in the education portion of the budget over the prior year's total appropriations. Regarding the University's legislative priorities, the Legislature provided a salary increase of 3 percent for State university employees; and provided \$54.5 million for enrollment growth at State universities (the University's share is 14.9 million or 27.3 percent). The University expects an increase in revenue from student tuition and fees because of increased enrollment and increased student tuition and fees.

There was an increase in total net assets of \$35.3 million and this contributed to the sound financial position of the University. 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 sales and services of auxiliary enterprises and student tuition and fees all showed increases in the 2005-06 fiscal year and are expected to remain strong.

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**FINANCIAL SECTION**


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**UNIVERSITY OF SOUTH FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET ASSETS  
As of June 30, 2006**

	University	Component Units
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 2,312,073.19	\$ 20,345,003.00
Restricted Cash and Cash Equivalents	691,970.12	1,665,546.00
Investments	267,344,494.14	154,387,180.00
Receivables, Net	96,196,719.52	64,853,379.00
Loans and Notes Receivable, Net	630,868.47	539,930.00
Due from State	94,843,491.91	
Due from University		107,919,187.00
Due from Component Units	270,074.00	3,334,770.00
Inventories	266,871.93	
Other Current Assets	92,823.42	13,246,489.00
	<b>Total Current Assets</b>	<b>366,291,484.00</b>
Noncurrent Assets:		
Restricted Investments	43,488,224.63	388,217,231.00
Loans and Notes Receivable, Net	7,848,921.31	
Depreciable Capital Assets, Net	532,522,820.79	38,430,335.00
Nondepreciable Capital Assets	79,692,952.88	59,539,358.00
Other Noncurrent Assets	420,910.59	13,511,217.00
	<b>Total Noncurrent Assets</b>	<b>499,698,141.00</b>
	<b>TOTAL ASSETS</b>	<b>\$ 865,989,625.00</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 10,695,619.55	\$ 42,529,019.00
Construction Contracts Payable	2,587,049.31	
Salaries and Wages Payable	23,342,173.56	9,093,628.00
Deposits Payable	8,569,465.09	8,254,686.00
Due to University		270,074.00
Due to Component Units	107,919,187.00	3,334,770.00
Deferred Revenue	73,230,590.02	7,708,169.00
Other Current Liabilities	190,000.00	
Long-Term Liabilities - Current Portion:		
Bonds and Revenue Certificates Payable	3,462,669.74	1,085,000.00
Certificates of Participation Payable		2,270,000.00
Notes Payable		994,665.00
Installment Purchases Payable	686,854.00	
Capital Leases Payable	515,000.00	88,754.00
Estimated Insurance Claims Payable	1,495,070.40	
Compensated Absences Payable	5,325,451.29	
	<b>Total Current Liabilities</b>	<b>75,628,765.00</b>

**UNIVERSITY OF SOUTH FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET ASSETS (Continued)  
As of June 30, 2006**

	University	Component Units
<b>LIABILITIES (Continued)</b>		
Noncurrent Liabilities:		
Bonds and Revenue Certificates Payable	\$ 54,715,486.75	\$ 44,880,000.00
Certificates of Participation Payable		241,092,624.00
Notes Payable		1,967,754.00
Installment Purchases Payable	704,296.00	
Capital Leases Payable	12,195,000.00	3,271,453.00
Estimated Insurance Claims Payable	12,491,469.60	
Compensated Absences Payable	50,668,890.50	
	<b>130,775,142.85</b>	<b>291,211,831.00</b>
<b>Total Noncurrent Liabilities</b>		
	<b>368,794,272.81</b>	<b>366,840,596.00</b>
<b>TOTAL LIABILITIES</b>		
	<b>368,794,272.81</b>	<b>366,840,596.00</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	443,217,215.51	25,596,626.00
Restricted for Nonexpendable:		
Endowment		395,723,630.00
Restricted for Expendable:		
Debt Service	7,494,378.68	
Loans	11,088,004.57	
Capital Projects	92,249,698.66	
Other	22,507,274.58	
Unrestricted	181,272,372.09	77,828,773.00
	<b>757,828,944.09</b>	<b>499,149,029.00</b>
<b>TOTAL NET ASSETS</b>		
	<b>757,828,944.09</b>	<b>499,149,029.00</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		
	<b>\$ 1,126,623,216.90</b>	<b>\$ 865,989,625.00</b>

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, 2006**

	University	Component Units
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$45,435,447.09	\$ 124,251,347.87	\$ 467,135.00
Federal Grants and Contracts	152,764,866.86	357,213.00
State and Local Grants and Contracts	34,037,104.67	50,253,141.00
Nongovernmental Grants and Contracts	97,928,654.02	64,292,917.81
Sales and Services of Auxiliary Enterprises	64,292,917.81	656,977.78
Sales and Services of Educational Departments	656,977.78	186,375,635.00
Sales and Services Component Units		1,704,025.00
Royalties and Licensing Fees		54,041,336.00
Gifts and Donations		231,367.69
Interest on Loans and Notes Receivable	231,367.69	6,146,294.10
Other Operating Revenues	6,146,294.10	11,213,145.00
<b>Total Operating Revenues</b>	<b>480,309,530.80</b>	<b>304,411,630.00</b>
<b>EXPENSES</b>		
Operating Expenses:		
Compensation and Employee Benefits	573,735,824.93	151,549,405.00
Services and Supplies	161,367,374.91	133,990,322.00
Utilities	20,280,436.11	73,198.00
Scholarships and Fellowships	58,097,901.14	2,938,772.00
Depreciation	43,603,026.12	2,847,682.00
Self-Insurance Claims and Expenses	5,908,920.18	
<b>Total Operating Expenses</b>	<b>862,993,483.39</b>	<b>291,399,379.00</b>
<b>Operating Income (Loss)</b>	<b>(382,683,952.59)</b>	<b>13,012,251.00</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations	319,340,847.47	
Federal and State Student Financial Aid	61,684,911.81	
Investment Income	9,936,008.95	45,929,313.00
Unrealized Gains and Losses	(6,914,703.45)	
Other Nonoperating Revenues	720,294.04	13,083,386.00
Interest on Capital Asset-Related Debt	(3,173,537.16)	(6,478,370.00)
Other Nonoperating Expenses	(11,426,343.08)	(10,675,121.00)
<b>Net Nonoperating Revenues</b>	<b>370,167,478.58</b>	<b>41,859,208.00</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<b>(12,516,474.01)</b>	<b>54,871,459.00</b>
Capital Appropriations	39,178,927.00	
Capital Grants, Contracts, and Donations	8,423,894.09	
Transfers From/To Other SUS Universities	234,376.92	
<b>Increase in Net Assets</b>	<b>35,320,724.00</b>	<b>54,871,459.00</b>
Net Assets, Beginning of Year	722,508,220.09	434,012,406.00
Adjustment to Beginning Net Assets		10,265,164.00
<b>Net Assets, Beginning of Year, as Restated</b>	<b>722,508,220.09</b>	<b>444,277,570.00</b>
<b>Net Assets, End of Year</b>	<b>\$ 757,828,944.09</b>	<b>\$ 499,149,029.00</b>

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, 2006**

	<b>University</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees	\$ 120,409,929.10
Grants and Contracts	294,846,726.39
Sales and Services of Auxiliary Enterprises	66,696,981.56
Sales and Services of Educational Departments	656,977.78
Interest on Loans Receivable	227,144.64
Other Operating Receipts	7,362,523.61
Payments to Employees	(559,174,522.63)
Payments to Suppliers for Goods and Services	(191,982,849.97)
Payments to Students for Scholarships and Fellowships	(58,097,901.14)
Payments on Self-Insurance Claims and Expenses	(4,333,604.18)
Net Loans Issued to Students	81,365.10
	<b>(323,307,229.74)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	319,340,847.47
Federal and State Student Financial Aid	61,684,911.81
Operating Subsidies and Transfers	19,415,504.64
Net Change in Funds Held for Others	(1,900,385.37)
Other Nonoperating Receipts	3,151,937.47
Other Nonoperating Expenses	(34,422,488.97)
	<b>367,270,327.05</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Capital Debt	26,475,752.69
Capital Appropriations	42,801,692.50
Capital Grants and Contracts	4,844,244.97
Capital Subsidies and Transfers	10,139,905.50
Other Receipts for Capital Projects	1,340,117.74
Purchases of Capital Assets	(117,664,211.71)
Principal Paid on Capital Debt	(4,404,153.82)
Interest Paid on Capital Debt	(3,175,327.30)
	<b>(39,641,979.43)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Investments, Net	(13,327,688.22)
Investment Income	10,146,355.13
	<b>(3,181,333.09)</b>
<b>Net Cash Used by Operating Activities</b>	<b>(323,307,229.74)</b>
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>367,270,327.05</b>
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(39,641,979.43)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(3,181,333.09)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>1,139,784.79</b>
Cash and Cash Equivalents, Beginning of Year	1,864,258.52
	<b>\$ 3,004,043.31</b>

**UNIVERSITY OF SOUTH FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF CASH FLOWS (Continued)  
For the Fiscal Year Ended June 30, 2006**

	<b>University</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (382,683,952.59)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	43,603,026.12
Change in Assets and Liabilities:	
Receivables, Net	32,220,396.05
Loans and Notes Receivable, Net	81,365.10
Interest Receivable	(4,223.05)
Inventories	54,488.77
Other Assets	551,058.60
Accounts Payable	(10,540,693.18)
Salaries and Wages Payable	4,640,744.00
Estimated Insurance Claims Payable	1,575,316.00
Deposits Payable	1,502,038.20
Compensated Absences Payable	9,932,340.10
Deferred Revenue	(24,229,133.86)
Other Liabilities	(10,000.00)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (323,307,229.74)</b>

**UNIVERSITY OF SOUTH FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**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 regulations. 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. These criteria were used to evaluate potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, the University is a component unit of the State of Florida, and its financial balances and activity is reported in the State's Comprehensive Annual Financial Report by discrete presentation.

**Blended Component Unit.** Based on the application of the criteria for determining component units, the Medical Professional Liability Self-Insurance Program is included within the University reporting entity as a blended component unit. The Medical Professional Liability Self-Insurance Program was created in 1972 and provides medical professional liability, comprehensive general liability, hospital professional liability, and patient's property liability covering faculty, staff, and students engaged in medical programs at the University.

**UNIVERSITY OF SOUTH FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006**

**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 University Board of Trustees. Additional information on the University's discretely presented component units, including copies of audit reports, is available by contacting the University Controller's Office. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

**Direct-Support Organizations.** The University's direct support organizations, as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 6C-9.011, 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 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 Sun Dome, Inc., operates a multi-purpose facility on behalf of the University of South Florida to provide the students, faculty and staff of the University, as well as the general public, an array of cultural, athletic, and other educational events and activities, including a variety of entertainment events.
- The University of South Florida Research Foundation, Inc., has been established to provide a means by which inventions and works may be developed, protected, applied, and utilized so that the results of University research will be made available to the public and funds will be made available from the commercial application of inventions and works to be dedicated to the benefit of the University and shared with the inventor/author.

**UNIVERSITY OF SOUTH FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006**

- The USF Financing Corporation is a not-for-profit corporation organized and operated exclusively to receive, hold, invest and administer property and to make expenditures to or for the benefit of the University of South Florida.
- The USF Property Corporation is a not-for-profit corporation formed for the primary purpose of acting as lessor in connection with “lease-purchase” financings in support of the activities and educational purposes of the University of South Florida and of the USF Financing Corporation by assisting in acquiring facilities and constructing facilities on the University campus and, in general, furthering the University’s educational mission.

Faculty Practice Plan. The University Medical Service Association, Inc., a Faculty Practice Plan as provided for in Board of Governors Regulation 6C-9.017, provides educationally oriented clinical practice settings and opportunities through which faculty members provide health and medical care to patients as an integral part of their academic activities and their employment as faculty. Because these faculty practice activities generate income, the University is authorized to regulate fees generated from faculty practice and maintain the Faculty Practice Plan for the orderly collection and distribution of fees.

**Basis of Presentation.** The University’s accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by 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

**UNIVERSITY OF SOUTH FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006**

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. Some are required to follow GASB standards of accounting and financial reporting and some, such as the University of South Florida Foundation, Inc., follow FASB standards of accounting and financial reporting for not-for-profit organizations.

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 revenues for capital construction projects. 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 a student or a third party making payment on behalf of the student. The University applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be third-party aid.

**UNIVERSITY OF SOUTH FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006**

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*.

**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, 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 are reported net of unamortized premium or discount and deferred losses on refundings. The University amortizes bond premiums and discounts over the life of the bonds and revenue certificates using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance 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 accordance with generally accepted accounting principles, a primary justification for blending a component unit is if the component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it

**UNIVERSITY OF SOUTH FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006**

does not provide services directly to it. In the prior fiscal year, the USF Financing Corporation (USFFC) and the USF Property Corporation (USFPC) were established. Due to facts and circumstances at that time, these component units were recognized as blended units on the financial statements. However, in the current fiscal year, circumstances changed.

During the 2005-06 fiscal year, the USFFC (the USFPC is considered as a flow-through entity of USFFC) issued certificates of participation in the amount of \$47,315,000 on behalf of the University Medical Service Association, Inc. (UMSA). UMSA is a component unit of the University, distinct from the primary government and has a specific mission that is related primarily to providing health and medical care. The amount of services being provided to UMSA is significant as certificates of participation issued on behalf of UMSA comprised 20.7 percent of the total outstanding USFFC debt at the end of the 2005-06 fiscal year. Therefore, USFFC and USFPC are not providing services solely to the primary government and are presented as discretely presented component units.

**3. 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 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.

**4. 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. Pursuant to Section 218.415(16), 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 qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the University's Board of Trustees as

**UNIVERSITY OF SOUTH FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2006**

authorized by law. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The University’s investments at June 30, 2006, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
External Investment Pools - State Treasury Special Purpose Investment Account	\$292,210,457.50
State Board of Administration Debt Service Accounts	2,924.06
United States Government Obligations	7,038,868.76
Federal Agency Obligations	2,830,869.53
Bonds and Notes	3,410,718.64
Stocks and Other Equity Securities	5,270,483.46
Money Market Mutual Fund	68,396.82
<b>Total University Investments</b>	<b>\$ 310,832,718.77</b>

The University’s component units’ investments at June 30, 2006, are reported at fair value, as follows:

<u>Investment Type</u>	<u>University of South Florida Foundation, Inc.</u>	<u>University of South Florida Alumni Association, Inc.</u>	<u>University of South Florida Research Foundation, Inc.</u>	<u>USF Financing Corporation</u>	<u>University Medical Service Association, Inc.</u>	<u>Total</u>
United States Government Obligations	\$	\$	\$	\$	\$ 15,774,407	\$ 15,774,407
Bonds and Notes	128,807,840	757,602	4,396,041		2,665,245	136,626,728
Stocks and Other Equity Securities	260,193,621	1,941,144			14,985,418	277,120,183
Investment Agreements	5,616,635		8,210,653			13,827,288
Real Estate Agreements	350,000					350,000
Money Market Mutal Funds	1,466,430	9,230		97,173,998	256,147	98,905,805
<b>Total Component Units Investments</b>	<b>\$ 396,434,526</b>	<b>\$ 2,707,976</b>	<b>\$ 12,606,694</b>	<b>\$ 97,173,998</b>	<b>\$ 33,681,217</b>	<b>\$ 542,604,411</b>

**External Investment Pools**

The University’s investments at June 30, 2006, primarily consisted of \$292,210,457.50 in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. 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 2.72 years at June 30, 2006. 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 investment pool are included in the notes to the financial statements of the State’s Comprehensive Annual Financial Report.

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**Other Investments**

The University's investments (which include those of its blended component unit, the Medical Professional Liability Self-Insurance Program), and investments of the USF Financing Corporation, a discretely presented component unit, consisted of various debt and equity securities and money market mutual funds. Because the University and the USF Financing Corporation report under the GASB reporting model, they are required to disclose various investment risks. The Medical Professional Liability Self-Insurance Program's investment policy and the USF Financing Corporation's investment policy allows investments in cash and cash equivalents, equities, and fixed income investments. The following risks apply to the University's and USF Financing Corporation's 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 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. The USF Financing Corporation's investment policy provides for interest rate risk. The risk varies depending on the type of investment.

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The Medical Professional Liability Self-Insurance Program's investment policy provides that all fixed income securities investments shall be rated in the top three rating classifications as defined by both Moody's and Standard and Poor's. The USF Financing Corporation's investment policy provides for credit rate risk. The risk varies depending on the type of investment.

The following interest rate and credit risks apply to the University's and USF Financing Corporation's investments in debt securities and money market mutual funds at June 30, 2006:

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**University Debt Investment Maturity and Quality Ratings**

Investment Type	Weighted or Effective Average Maturities	Credit Quality Range		Fair Value
		Moody's	Standard and Poor's	
United States Government Obligations	4.65 Years (2)	(1)	(1)	\$ 7,038,868.76
Federal Agency Obligations	6.33 Years (2)	Aaa	AAA	2,830,869.53
Bonds and Notes	3.58 Years (2)	A1-Aaa	A-AAA	3,410,718.64
Money Market Mutual Fund	15 Days (3)	Aaa	AAAm	68,396.82
<b>Total</b>				<b>\$ 13,348,853.75</b>

**USF Financing Corporation Debt Investment Maturity and Quality Ratings**

Investment Type	Weighted or Effective Average Maturities	Credit Quality Range		Fair Value
		Moody's	Standard and Poor's	
Money Market Mutual Fund	21 Days (2)	Aaa	AAAm	<u>\$ 97,173,998.00</u>

- 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 investments that are held by someone other than the University or the USF Financing Corporation and not registered in their names. All investments for the Medical Professional Liability Self-Insurance Program and the USF Financing Corporation 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 or the USF Financing Corporation's investment in a single issuer. The Medical Professional Liability Self-Insurance Program's investment 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. The USF Financing Corporation's investment policy provides that investments in any one issuer shall not exceed one percent of the market value of the assets of the Fund. Direct investments in securities of the U.S. Government, Government agencies and State of Florida Investment Pools, or Pooled Funds comprised solely of U.S. Government Securities are not subject to these restrictions.

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**5. 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, contracts and grants reimbursements due from third parties, and interest accrued on 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, and loans and notes receivable, are reported based upon management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of \$6,698,877.35 and \$2,068,330.18, respectively, at June 30, 2006.

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

**6. DUE FROM STATE**

This is the amount of Public Education Capital Outlay, Alec P. Courtelis Capital Facility Matching Trust Fund, bond proceeds and other allocations due to the University for construction of University facilities.

**7. DUE FROM/TO COMPONENT UNITS/UNIVERSITY**

The \$270,074 reported as Due from Component Units and Due to University represents amounts owed by the Sun Dome, Inc., to the University for utilities of the golf course, auxiliary and baseball fields and wages and benefits for one employee.

The \$107,919,187 reported as Due to Component Units and Due from University represents amounts owed by the University to the USF Finance Corporation for construction and financing of buildings and pledged revenues (\$105,053,833) and amounts owed to the University Medical Service Association, Inc., for overpayments of partial fundings of faculty salaries at the Health Sciences Center (\$2,865,354).

**8. INVENTORIES**

Inventories have been categorized into the following two types:

- Departmental Inventories – Those inventories maintained by departments and not available for resale. Departmental inventories are comprised of such items as classroom and laboratory supplies, teaching materials, and office supply items, which are consumed in the teaching and work process.

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These inventories are normally expensed when purchased and therefore are not reported on the statement of net assets.

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

## 9. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2006, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 11,150,533.94	\$	\$	\$ 11,150,533.94
Construction in Progress	29,964,071.86	45,901,202.25	7,697,792.08	68,167,482.03
Historical Treasures - Works of Art	239,547.11	135,389.80		374,936.91
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 41,354,152.91</b>	<b>\$ 46,036,592.05</b>	<b>\$ 7,697,792.08</b>	<b>\$ 79,692,952.88</b>
<b>Depreciable Capital Assets:</b>				
Buildings	\$ 637,380,970.00	\$ 7,465,146.83	\$ 2,480,482.59	\$ 642,365,634.24
Infrastructure and Other Improvements	45,268,804.99			45,268,804.99
Furniture and Equipment	198,231,473.88	16,193,895.72	10,601,311.44	203,824,058.16
Library Resources	28,679,187.00	1,092,916.02		29,772,103.02
Property Under Capital Lease	13,200,000.00			13,200,000.00
Other Capital Assets	22,856,747.43	2,582,324.82		25,439,072.25
<b>Total Depreciable Capital Assets</b>	<b>945,617,183.30</b>	<b>27,334,283.39</b>	<b>13,081,794.03</b>	<b>959,869,672.66</b>
<b>Less, Accumulated Depreciation:</b>				
Buildings	220,043,467.96	19,231,693.72	1,307,421.59	237,967,740.09
Infrastructure and Other Improvements	18,842,908.08	2,251,657.58		21,094,565.66
Furniture and Equipment	131,129,500.80	16,958,633.85	8,174,787.18	139,913,347.47
Library Resources	9,403,816.25	2,865,807.42		12,269,623.67
Property Under Capital Lease	286,000.00	264,000.00		550,000.00
Other Capital Assets	13,520,341.43	2,031,233.55		15,551,574.98
<b>Total Accumulated Depreciation</b>	<b>393,226,034.52</b>	<b>43,603,026.12</b>	<b>9,482,208.77</b>	<b>427,346,851.87</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 552,391,148.78</b>	<b>\$ (16,268,742.73)</b>	<b>\$ 3,599,585.26</b>	<b>\$ 532,522,820.79</b>

## 10. 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, 2006, to spend the funds, and amounts received from contracts and grants, and student fees, prior to fiscal year end related to subsequent accounting periods. As of June 30, 2006, the University reported the following amounts as deferred revenue:

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Description	Amount
Contracts and Grants	\$ 67,394,223.91
Public Education Capital Outlay Funds	3,609,797.00
Student Fees	2,226,569.11
<b>Total Deferred Revenue</b>	<b>\$ 73,230,590.02</b>

## 11. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2006, include bonds and revenue certificates, installment purchases, capital leases, self-insurance claims, and compensated absences. Long-term liabilities activity for the fiscal year ended June 30, 2006, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and Revenue Certificates	\$ 56,931,863.88	\$ 9,807,945.71	\$ 8,561,653.10	\$ 58,178,156.49	\$ 3,462,669.74
Certificates of Participation (1)	142,442,656.00		142,442,656.00		
Installment Purchases	2,166,836.00		775,686.00	1,391,150.00	686,854.00
Capital Leases	13,200,000.00		490,000.00	12,710,000.00	515,000.00
Estimated Insurance Claims	12,411,224.00	3,545,013.95	1,969,697.95	13,986,540.00	1,495,070.40
Compensated Absences	46,062,001.69	13,897,765.10	3,965,425.00	55,994,341.79	5,325,451.29
<b>Total Long-Term Liabilities</b>	<b>\$ 273,214,581.57</b>	<b>\$ 27,250,724.76</b>	<b>\$ 158,205,118.05</b>	<b>\$ 142,260,188.28</b>	<b>\$ 11,485,045.43</b>

Note: (1) Debt related to the USF Financing Corporation, which is no longer being reported as a blended component unit as discussed in note 2.

**Bonds and Revenue Certificates Payable.** Bonds and revenue certificates were issued to construct University facilities, including parking garages and academic and student service facilities. Bonds and revenue certificates outstanding, which include both term and serial bonds, are secured by a pledge of traffic and parking fees, and various student fee 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 State Board of Education and the State Board of Administration administer the principal and interest payments, investment of sinking fund resources, and compliance with reserve requirements.

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

- The State Board of Education issued \$28,290,000 of University System Improvement Revenue Refunding Bonds, Series 2005A, dated September 15, 2005. The University's portion of the refunding bonds (\$5,656,690.21) was used to defease \$5,335,764.54 of outstanding University System Improvement Revenue Bonds, Series 1997. 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.

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As a result of the refunding, the University reduced its debt service requirement by \$581,757.54 over the next 17 years and obtained an economic gain of \$426,996.64. At June 30, 2006, the outstanding balance of the defeased bonds was \$5,335,764.54.

The University had the following bonds and revenue certificates payable outstanding at June 30, 2006:

Bond Type and Series	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
<b>Parking:</b>				
Parking Garage 2002	\$ 12,700,000.00	\$ 11,232,161.60	3.10 - 4.75	2023
Parking Garage 2004A	16,000,000.00	14,723,917.20	2.50 - 5.00	2024
<b>Subtotal</b>	<u>28,700,000.00</u>	<u>25,956,078.80</u>		
<b>Academic and Student Services Facilities:</b>				
Bookstore Revenue 1994	8,090,000.00	5,168,884.50	5.70 - 6.00	2016
Revenue Certificate 1997	7,359,296.00	223,854.90	5.10	2007
Revenue Certificate 1997A	9,949,528.45	8,578,760.56	4.50 - 5.10	2016
Revenue Certificate 1998	1,753,377.96	1,362,660.96	4.00 - 5.00	2023
Revenue Certificate 2001	488,036.69	426,739.14	4.00 - 5.00	2026
Revenue Certificate 2006A	4,371,625.04	4,502,253.15	4.00 - 5.00	2030
2003A Revenue Refunding Bond	9,390,369.54	6,743,558.95	5.00	2013
2005A Revenue Refunding Bond	5,656,690.21	5,215,365.53	3.625 - 4.125	2022
<b>Subtotal</b>	<u>47,058,923.89</u>	<u>32,222,077.69</u>		
<b>Total Bonds and Revenue Certificates</b>	<u>\$ 75,758,923.89</u>	<u>\$ 58,178,156.49</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, 2006, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 3,462,669.74	\$ 2,890,613.16	\$ 6,353,282.90
2008	3,681,402.36	2,428,988.19	6,110,390.55
2009	3,803,714.24	2,280,497.01	6,084,211.25
2010	3,984,945.80	2,119,583.68	6,104,529.48
2011	4,167,416.23	1,948,148.41	6,115,564.64
2012-2016	20,804,639.28	6,926,484.28	27,731,123.56
2017-2021	11,028,917.88	3,164,643.56	14,193,561.44
2022-2026	6,292,320.79	848,114.97	7,140,435.76
2027-2030	1,111,166.16	142,297.50	1,253,463.66
<b>Subtotal</b>	58,337,192.48	22,749,370.76	81,086,563.24
Less: Net Bond Discounts, Premiums, and Losses on Bond Refundings	<u>(159,035.99)</u>		<u>(159,035.99)</u>
<b>Total</b>	<u>\$ 58,178,156.49</u>	<u>\$ 22,749,370.76</u>	<u>\$ 80,927,527.25</u>

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**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, 2006, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2007	\$ 708,551.00
2008	496,313.00
2009	215,393.00
	<hr/>
<b>Total Minimum Payments</b>	1,420,257.00
Less, Amount Representing Interest	29,107.00
	<hr/>
<b>Present Value of Minimum Payments</b>	<b><u>\$ 1,391,150.00</u></b>

**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, 2006, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2007	\$ 1,075,362.50
2008	1,071,737.50
2009	1,072,100.00
2010	1,071,337.50
2011	1,069,450.00
2012-2016	5,353,262.50
2017-2021	5,330,812.50
2022-2023	2,127,587.50
	<hr/>
<b>Total Minimum Payments</b>	18,171,650.00
Less, Amount Representing Interest	5,461,650.00
	<hr/>
<b>Present Value of Minimum Payments</b>	<b><u>\$ 12,710,000.00</u></b>

**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 Regulation 6C-5.920 and USF Rules 6C4-10.104 and 6C5-10.203, 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

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accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2006, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$55,994,341.79. The current portion of the compensated absences liability is based on actual payouts over the last three years, calculated as a percentage of those years' total compensated absences liability.

**12. CERTIFICATES OF PARTICIPATION – COMPONENT UNITS**

On May 25, 2005, the USF Financing Corporation issued \$47,995,000 Certificates of Participation Series 2005A and \$92,250,000 Certificates of Participation Series 2005B. The proceeds derived from the issuance of the certificates were used to: (1) finance the acquisition and construction of a housing and parking facility at the University of South Florida St. Petersburg campus; (2) pay certain expenses related to the issuance and sale of the 2005 Certificates including the financial guaranty insurance policy premium; and (3) redeem the outstanding principal for the University's prior housing facilities.

On January 19, 2006, the USF Financing Corporation issued \$41,610,000 Certificates of Participation Series 2005C. The proceeds derived from the issuance of the certificates were used to: (1) finance the construction of a new Marshall Center, a student center and (2) pay certain expenses related to the issuance and sale of the Series 2005C Certificates including the financial guaranty insurance policy premium. On March 16, 2006, the USF Financing Corporation issued \$47,315,000 Certificates of Participation Series 2006A. The proceeds derived from the issuance of the certificates were used to: (1) finance the acquisition and construction of two fully-equipped medical office buildings consisting of the North Clinic Facility and the South Clinic Facility and (2) pay certain expenses related to the issuance and sale of the Series 2006A Certificates.

The Series 2005A and 2005B Certificates were issued pursuant to a Master Trust Agreement, dated as of May 1, 2005, as supplemented by the Series 2005 Supplemental Trust Agreement, dated as of May 1, 2005, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. The Series 2005C Certificates were issued pursuant to a Master Trust Agreement, dated as of May 1, 2005, as supplemented by the Series 2005C Supplemental Trust Agreement, dated as of December 1, 2005, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee. The Series 2006A Certificates were issued pursuant to a Master Trust Agreement, dated as of March 1, 2006, as supplemented by the Series 2006 Supplemental Trust Agreement, dated as of March 1, 2006, by and among a Trustee, the USF Property Corporation, as lessor, and the USF Financing Corporation, as lessee.

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For the Series 2005A and Series 2005B Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated as of May 1, 2005, with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the housing and parking facilities are, 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.

For the Series 2005C Certificates, the USF Property Corporation has entered into a First Ground Lease Supplement, dated as of December 1, 2005, with the University Board of Trustees whereby the University has leased to the USF Property Corporation the land on which the Marshall Center is or shall 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.

For the Series 2006A Certificates, the USF Property Corporation has entered into a Ground Lease Agreement, dated as of March 1, 2006, with the University Board of Trustees whereby the University has leased to the USF Property Corporation interest in the lands on which the North Clinic Facility and the South Clinic Facility will be constructed. With respect to the South Clinic Facility site, the University Board of Trustees possesses sublease interest in the site pursuant to a sublease, dated March 15, 2006, between the University and Florida Health Science Center, Inc., d/b/a Tampa General Hospital, whereby Tampa General Hospital will sublease to the University the land on which the South Clinic Facility will be constructed. The USF Financing Corporation has subleased both the North Clinic Facility and the South Clinic Facility to the University of South Florida Medical Services Support Corporation (MSSC), a direct-support organization of the University, pursuant to individual office building lease agreements, each dated March 1, 2006.

The University Medical Service Association, Inc. (UMSA), a direct-support organization of the University, has guaranteed all payments due from MSSC to the USF Financing Corporation under both Facility Lease Agreements pursuant to a Lease Guaranty, dated March 1, 2006, between UMSA and the USF Financing Corporation. The USF Financing Corporation's right to receive all payments received from MSSC under the Facility Lease Agreements and any payments required to be made by UMSA under the Lease Guaranty are collaterally assigned to the Trustee pursuant to one or more separate assignments. All of the right, title, and

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

To provide credit enhancement for the Series 2006A Certificates, a counterparty has issued and delivered to the Trustee two separate irrevocable direct-pay Letters of Credit pursuant to a Reimbursement Agreement by and among the counterparty, the USF Financing Corporation and the USF Property Corporation, dated March 1, 2006. Under each of the Letters of Credit, the Trustee will be entitled to draw up to an amount sufficient to pay 100 percent of the principal amount of the Series 2006A Certificates, plus interest, as applicable. The USF Financing Corporation and the Property Corporation agree in the Reimbursement Agreement to reimburse the counterparty for drawings made on either of the Letters of Credit and to make certain other payments to the counterparty.

The Series 2005A fixed rate Certificates bear a true interest cost to maturity of 4.196 percent. The Series 2005B variable rate Certificates will initially bear interest at auction rates for generally successive seven-day auction periods. The Series 2005C fixed rate Certificates bear a true interest cost to maturity of 4.557 percent. The Series 2006A variable rate Certificates, which have been hedged to limit the effect of changes in interest rates, bear a true interest cost to maturity of 3.918 percent. The Series 2005A Certificates mature in 2023, the Series 2005B Certificates mature in 2035, and the Series 2005C Certificates and Series 2006A Certificates mature in 2036.

Principal and interest payments requirements on the Certificates of Participation outstanding as of June 30, 2006, are as follows:

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<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,755,000	\$ 7,815,518	\$ 9,570,518
2008	2,030,000	9,040,137	11,070,137
2009	2,905,000	8,969,993	11,874,993
2010	4,590,000	8,856,270	13,446,270
2011	4,740,000	8,706,412	13,446,412
2012-2016	26,455,000	40,630,571	67,085,571
2017-2021	32,570,000	34,383,536	66,953,536
2022-2026	40,185,000	26,607,902	66,792,902
2027-2031	49,020,000	17,861,972	66,881,972
2032-2036	59,835,000	7,281,361	67,116,361
2037	5,085,000	148,957	5,233,957
<b>Subtotal</b>	229,170,000	170,302,629	399,472,629
Add, Net Premiums and Discounts	1,482,624		1,482,624
<b>Total (1)</b>	<b>\$ 230,652,624</b>	<b>\$ 170,302,629</b>	<b>\$ 400,955,253</b>

Note: (1) This total, plus \$12,710,000 of Certificates of Participation Payable for the University of South Florida Foundation, Inc., comprise the total \$243,362,624 of Certificates of Participation Payable reported under the component units column on the Statement of Net Assets.

To reduce the USF Financing Corporation's risk of interest rate changes with respect to the Series 2005B Certificates, on May 18, 2005, the USF Financing Corporation entered into an interest rate swap agreement with a counterparty with a total notional amount of \$80,000,000. The effect of the agreement is to limit the interest expense to 3.2195 percent on \$80,000,000 of the total \$92,250,000 principal in variable rate Series 2005B Certificates. The swap agreement expires July 1, 2015.

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

### 13. RETIREMENT PROGRAMS

**Florida Retirement System.** Most employees working in regularly established positions of the University are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). FRS 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 eligibility,

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contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible to enroll as members of the FRS.

Benefits in the Plan vest at 6 years of service. 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 his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

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 an FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2005-06 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	7.83
Florida Retirement System, Senior Management Services	0.00	10.45
Florida Retirement System, Special Risk	0.00	18.53
Teacher's Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	9.33
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 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 is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions (including employee contributions) for the fiscal years ended June 30, 2004, June 30, 2005, and June 30, 2006, totaled \$11,065,036, \$10,525,360, and \$11,279,324, respectively, which were equal to the required contributions for each fiscal year.

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Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There were 570 University participants during the 2005-06 fiscal year. Required contributions made to the PEORP totaled \$1,456,785.

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

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant 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 payroll deduction, an amount not to exceed the percentage contributed by the university to the participant's annuity account.

There were 2,993 University participants during the 2005-06 fiscal year. Required employer contributions made to the Program totaled \$20,957,092 and employee contributions totaled \$9,947,584.

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**14. 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 2005-06 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 retirement systems. This assessment is included in the Florida Retirement System contribution rates presented in note 13.

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 2005-06 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.

**15. CONSTRUCTION COMMITMENTS**

The University’s major construction commitments at June 30, 2006, are as follows:

Project Name	Current Commitment	Expenses	Commitment Balance
Center for Advanced Health Care	\$ 51,835,548.00	\$ 25,562,109.98	\$ 26,273,438.02
Marshall Center	14,573,429.00	451,849.97	14,121,579.03
Crosley Center	23,377,765.70	12,848,845.11	10,528,920.59
Center for Aging	6,888,317.00	1,389,370.04	5,498,946.96
Joint Military Facilities	8,074,412.00	100,000.00	7,974,412.00
Infrastructure (PECO)	25,544,381.30	5,707,375.96	19,837,005.34
<b>Subtotal</b>	130,293,853.00	46,059,551.06	84,234,301.94
Other Projects (1)	34,001,984.00	22,107,930.97	11,894,053.03
<b>Total</b>	<u>\$ 164,295,837.00</u>	<u>\$ 68,167,482.03</u>	<u>\$ 96,128,354.97</u>

Note: (1) Individual projects with commitment balances less than \$5 million at June 30, 2006.

**16. RISK MANAGEMENT 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 2005-06 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

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wind and flood. After the annual aggregate retention, losses in excess of \$2,000,000 per occurrence were commercially insured up to \$50,000,000 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. The \$50,000,000 of wind coverage is \$35,000,000 less than the coverage provided for the 2004-05 fiscal year. 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 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 \$15 million, are insured commercially. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The Program's estimated liability for unpaid claims at fiscal year-end is the result of both management and actuarial analyses and includes an amount for claims that have been incurred but not reported. Changes in the Program's claim liability amount for the fiscal years ended June 30, 2005, and June 30, 2006, are presented in the following table:

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Fiscal Year	Claims Liabilities Beginning of Year	Claims and Changes in Estimates	Claim Payments	Claims Liabilities End of Year
2004-05	\$ 11,209,747.00	\$ 3,281,155.00	\$ (2,079,678.00)	\$ 12,411,224.00
2005-06	12,411,224.00	3,545,013.95	(1,969,697.95)	13,986,540.00

**17. 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.

**18. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES**

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of academic departments for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net 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	\$ 251,132,735.54
Research	197,680,752.67
Public Service	9,677,086.36
Academic Support	85,289,527.22
Student Services	24,252,403.49
Institutional Support	62,952,940.87
Operation and Maintenance of Plant	46,247,483.47
Scholarships and Fellowships	60,446,701.07
Auxiliary Operations	81,538,806.86
Depreciation	43,603,026.12
Loan Operations	172,019.72
<b>Total Operating Expenses</b>	<b><u><u>\$ 862,993,483.39</u></u></b>

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**19. SEGMENT INFORMATION**

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

**Condensed Statement of Net Assets**

	Parking Facility Revenue Bonds
<b>Assets</b>	
Current Assets	\$ 7,140,798.01
Capital Assets, Net	30,645,323.50
Other Noncurrent Assets	7,053,713.20
<b>Total Assets</b>	44,839,834.71
<b>Liabilities</b>	
Current Liabilities	1,523,078.21
Noncurrent Liabilities	24,906,631.23
<b>Total Liabilities</b>	26,429,709.44
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	8,190,187.07
Restricted - Expendable	5,249,393.83
Unrestricted	4,970,544.37
<b>Total Net Assets</b>	\$ 18,410,125.27

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

	Parking Facility Revenue Bonds
Operating Revenues (Expenses):	
Parking Fees and Fines	\$ 9,543,065.49
Depreciation Expense	(708,111.54)
Other Operating Expenses	(6,852,118.72)
<b>Operating Income</b>	1,982,835.23
Net Nonoperating Expenses	(602,781.02)
Other Revenues, Expenses, Gains, or Losses	165,504.45
<b>Increase Before Transfers</b>	1,545,558.66
Net Assets, Beginning of Year	16,864,566.61
<b>Net Assets, End of Year</b>	\$ 18,410,125.27

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**Condensed Statement of Cash Flows**

	Parking Facility Revenue Bonds
Net Cash Provided (Used) by:	
Operating Activities	\$ 2,937,044.48
Capital and Related Financing Activities	(331,529.90)
Investing Activities	(2,598,399.29)
<b>Net Increase in Cash and Cash Equivalents</b>	7,115.29
Cash and Cash Equivalents, Beginning of Year	1,189.65
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 8,304.94</b>

**20. PRIOR PERIOD ADJUSTMENTS – COMPONENT UNITS**

Adjustments to beginning net assets are reported in accordance with Accounting Principles Board Opinion Nos. 9 and 20, and FASB Statement No. 16, only when amounts are considered material. A \$10,265,164 adjustment to beginning net assets reported in the statement of revenues, expenses, and changes in net assets was made to increase the components units' (University Medical Service Association, Inc.) beginning net asset balance to correct errors in accounting for certain transactions with the University in the prior year.

**21. COMPONENT UNITS**

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

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	Component Units						Total Direct- Support Organizations	Other Component Unit University Medical Service Association, Inc.	Total
	University of South Florida Foundation, Inc.	University of South Florida Alumni Association, Inc.	University of South Florida Medical Services Support Corporation	Sun Dome, Inc.	University of South Florida Research Foundation, Inc.	USF Financing Corporation and USF Property Corporation (1)			
<b>Condensed Statement of Net Assets</b>									
Assets:									
Current Assets	\$ 81,357,200	\$ 346,832	\$ 12,587,271	\$ 1,558,309	\$ 18,370,999	\$ 207,695,100	\$ 321,915,711	\$ 44,375,773	\$ 366,291,484
Capital Assets, Net	4,936,095	317	3,058,661	2,457,121	48,895,046	30,544,721	89,891,961	8,077,732	97,969,693
Other Noncurrent Assets	355,519,865	2,508,476	727,671		12,606,694		371,362,706	30,365,742	401,728,448
<b>Total Assets</b>	<b>441,813,160</b>	<b>2,855,625</b>	<b>16,373,603</b>	<b>4,015,430</b>	<b>79,872,739</b>	<b>238,239,821</b>	<b>783,170,378</b>	<b>82,819,247</b>	<b>865,989,625</b>
Liabilities:									
Current Liabilities	28,201,272	871,494	6,235,173	1,718,031	16,328,421	9,342,197	62,696,588	12,932,177	75,628,765
Noncurrent Liabilities	13,035,000		3,058,661	1,829,666	44,040,000	228,897,624	290,860,951	350,880	291,211,831
<b>Total Liabilities</b>	<b>41,236,272</b>	<b>871,494</b>	<b>9,293,834</b>	<b>3,547,697</b>	<b>60,368,421</b>	<b>238,239,821</b>	<b>353,557,539</b>	<b>13,283,057</b>	<b>366,840,596</b>
Net Assets:									
Invested in Capital Assets, Net of Related Debt	4,936,095	317		467,733	13,100,604		18,504,749	7,091,877	25,596,626
Restricted	393,279,925	204,633	2,239,072				395,723,630		395,723,630
Unrestricted	2,360,868	1,779,181	4,840,697		6,403,714		15,384,460	62,444,313	77,828,773
<b>Total Net Assets</b>	<b>\$ 400,576,888</b>	<b>\$ 1,984,131</b>	<b>\$ 7,079,769</b>	<b>\$ 467,733</b>	<b>\$ 19,504,318</b>	<b>\$</b>	<b>\$ 429,612,839</b>	<b>\$ 69,536,190</b>	<b>\$ 499,149,029</b>
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>									
Operating Revenues	\$ 52,535,861	\$ 1,505,475	\$ 46,170,335	\$ 4,152,105	\$ 16,648,143	\$ 20,936,622	\$ 141,948,541	\$ 162,463,089	\$ 304,411,630
Operating Expenses	48,231,014	1,469,998	44,377,892	3,926,937	20,232,708	11,296,369	129,534,918	161,864,461	291,399,379
<b>Operating Income (Loss)</b>	<b>4,304,847</b>	<b>35,477</b>	<b>1,792,443</b>	<b>225,168</b>	<b>(3,584,565)</b>	<b>9,640,253</b>	<b>12,413,623</b>	<b>598,628</b>	<b>13,012,251</b>
Net Nonoperating Revenues (Expenses)	37,564,910	226,221		3,148	11,903,200	(9,640,253)	40,057,226	1,801,982	41,859,208
<b>Increase in Net Assets</b>	<b>41,869,757</b>	<b>261,698</b>	<b>1,792,443</b>	<b>228,316</b>	<b>8,318,635</b>	<b></b>	<b>52,470,849</b>	<b>2,400,610</b>	<b>54,871,459</b>
Net Assets, Beginning of Year	358,707,131	1,722,433	5,287,326	239,417	11,185,683		377,141,990	56,870,416	434,012,406
Adjustment to Beginning Net Assets							10,265,164		10,265,164
<b>Net Assets, Beginning of Year, as Restated</b>	<b>358,707,131</b>	<b>1,722,433</b>	<b>5,287,326</b>	<b>239,417</b>	<b>11,185,683</b>	<b></b>	<b>377,141,990</b>	<b>67,135,580</b>	<b>444,277,570</b>
<b>Net Assets, End of Year</b>	<b>\$ 400,576,888</b>	<b>\$ 1,984,131</b>	<b>\$ 7,079,769</b>	<b>\$ 467,733</b>	<b>\$ 19,504,318</b>	<b>\$</b>	<b>\$ 429,612,839</b>	<b>\$ 69,536,190</b>	<b>\$ 499,149,029</b>

Note: (1) The USF Financing Corporation's and USF Property Corporation's financial statements were consolidated due to the USF Financing Corporation's ongoing economic interest in the USF Property Corporation and its ability to control the activities of the USF Property Corporation through common boards of directors.