Report No. 2017-077
December 2016

UNIVERSITY OF SOUTH FLORIDA

For the Fiscal Year Ended
June 30, 2016

Financial Audit

Sherrill F. Norman, CPA
Auditor General

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

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

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

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Claude Pepper Building, Suite G74 ∙ 111 West Madison Street ∙ Tallahassee, FL 32399-1450 ∙ (850) 412-2722

UNIVERSITY OF SOUTH FLORIDA

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SUMMARY

Summary of Report on F

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report 2016
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The following chart provides a graphical presentation of University revenues by category for the 2015-16 fiscal year:

Total Revenues:

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

Nonoperating Revenues (Expenses)
For the Fiscal Years

(In Thousands)

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

Other Revenues

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

Other Revenues
For the Fiscal Years

(In Thousands)

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

The Statement of Cash Flows

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

The following summarizes cash flows for the 2015-16 and 2014-15 fiscal years:

Condensed Statement of Cash Flows
For the Fiscal Years

(In Thousands)

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

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

Cash used by capital and related financing activities decreased by $10.7 millio

Capital Assets, Net at June 30
For the Fiscal Years

(In Thousands)

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

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

ECONOMIC FACTORS T

University of South Florida
A Com ponent Unit of the State o f Florida
Statement of Net PoPoPi/0 9.9Tte

University of South Florida
A Component Unit of the State o f Florida
Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended June 30, 201 6

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $110,795,121 ($3,186,835 Pledged for the Student Union Revenue Bonds)	$ 291,042,666	$ -
Federal Grants and Contracts	193,876,033	-
State and Local Grants and Contracts	25,126,909	-
Nongovernmental Grants and Contracts	161,962,620	62,736,424
Sales and Services of Auxiliary Enterprises ($10,855,059 Pledged for the Parking System Revenue Bonds)	133,239,293	-
Sales and Services of Component Units	-	238,454,451
Royalties and Licensing Fees	-	2,506,916
Gifts and Donations	-	38,812,997
Interest on Loans and Notes Receivable	177,388	-
Other Operating Revenues	10,280,272	46,869,746
Total Operating Revenues	815,705,181	389,380,534
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	825,087,039	212,593,716
Services and Supplies	291,174,092	145,715,9201

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University of South Florida
A Component Unit of the State o f Florida
Statement of Cash Flow s

For the Fiscal Year Ended June 30, 201 6

University

CASH FLOWS FROM OPERATING ACTIVITIES
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NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of 5 years. The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations, and selecting the University President. The University President serves as the executive officer and the corporate secretary of the Trustees, and is responsible for administering the policies p support services and are governed by separate boards. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- The University of South Florida Foundation, Inc. accepts, invests, administers, and distributes private gifts given for the funding of activities and facilities directly related to the mission, role, and scope of the University of South Florida.
- The University of South Florida Alumni Association, Inc. fosters the spirit of loyalty and fraternity among the graduates, former students, and friends of the University, and promotes their continued active interest in and on behalf of the University.
- The Sun Dome, Inc. operates a multi-purpose facility on behalf of the University of South Florida to provide the students, faculty, and staff of the University, as well as the general public, an array of cultural, athletic, and other educational events and activities, including a variety of entertainment events.
- The University of South Florida Research Foundation, Inc. has been established to provide a means by which inventions and works may be developed, protected, applied, and utilized so that the results of University research will be made available to the public and funds will be made available from the commercial application of inventions and works to be dedicated to the benefit of the University and shared with the inventor/author.
- The USF Financing Corporation was organized and operated to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University of South Florida.
- The USF Property Corporation was formed for the primary purpose of acting as lessor in connection with "lease-purchase" financings in support of the activities and educational purposes of the University of South Florida and of the USF Financing Corporation by assisting in acquiring facilities and constructing facilities on the University campus and in general, furthering the University's education mission.
- The USF Health Professions Conferencing Corporation was established to provide educational, administrative, logistical, and financial services to support the USF Health's Office of Continuing Professional Development (OCPD). The OCPD is committed to sponsoring quality continuing educational activities to meet the needs of USF faculty, alumni, and healthcare professionals practicing throughout the State, nationally, and internationally.
- The University Medical Service Association, Inc. ("UMSA") is approved as the USF Health Faculty Practice Plan (the "Plan") pursuant to Florida Board of Governors Regulation 9.017 and USF Regulation 9.017. UMSA specifically functions as the University's agent for the orderly collection and administration of income generated from University faculty practice in accordance with the Plan, and employs and provides personnel to support the USF Health clinical enterprise and mission.
- The University of South Florida Medical Services Support Corporation ("MSSC") is organized and operated exclusively to receive, hold, invest and administer property and to make expenditures to or for the benefit o10.8(f)-97Paf2.6(c)-2(al)2.6(S6(10.8(f)-9.9(.)]TJ 0 Tc 12(r)-6(ac)-2(t)-6.6(i)2.6(c)-2(e

also provides the University with recommendations prescribed in accordance with generally accepted

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

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

2. Investments

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The Board of Trustees has adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests

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

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

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

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

Investments measured at the NAV	Fair Value	Unfunded C(en)37e3)eion	Redemption Frequency (if	Redemption Notice

Investments by fair value level	Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bonds and Notes	$ 1,269,348	$ -	$ 1,269,348	$ -

Investment Type	Weighted Average Maturities	Moody's	Standard and Poor's	Fair Value
United States Treasury Securities (3)	3.15 Years	(1)	(1)	$ 10,661,965

accounts as custodian. The University investment policy provides for custodial credit risk. All investments for the Medical Professional Liability Self-Insurance Program are held in counterparty accounts as custodian.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University, Medical Professional Liability Self-Insurance Program, and Research Foundation investment policies provide that the maximum amount that may be invested in the securities of an individual issuer not backed by the full faith and credit of the United States Government shall not exceed five percent of the market value of the assets of the investment portfolio, and no single corporate bond issuer shall exceed five percent of the market value of the investment portfolio. Direct investments in securities of the United States Government, Government agencies and State of Florida Investment Pools, or Pooled Funds comprised solely of United States Government Securities are not subject to these restrictions for the University and the Research Foundation. The University did not have any investments in securities of an individual issuer or single corporate bond issue that exceeded five percent of the market value of the investment portfolio at June 30, 2016.

3. Receivables

Accounts Receivable . Accounts receivable represent amounts for contract and grant reimbursements due from third parties, student tuition and fees, various sales and services provided to students and third parties, and interest accrued on loans receivable. s Gainvers7-2(es)-6(t)-6.6(y)8.9(7i)2.6(n

Description	Beginning Balance	Adjustments	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 15,564,728	$ 633,001	$ -	$ -	$ 16,197,729
Works of Art and Historical Treasures	1,200,089	-	6,300	-	1,206,389
Other Capital Assets	1,173,750	-	-	-	1,173,750
Construction in Progress	20,929,630	-	42,013,245	21,683,523	41,259,352
Total Nondepreciable Capital Assets	$ 38,868,197	$ 633,001	$ 42,019,545	$ 21,683,523	$ 59,837,220
Depreciable Capital Assets:					
Buildings	$ 1,139,387,384	$ 925,720	$ 20,778,588	$ 1,592,257	$ 1,159,499,435
Infrastructure and Other Improvements	64,750,382	1,209,705	1,297,708	-	67,257,795
Furniture and Equipment	163,044,310	126,816	11,709,924	6,832,739	168,048,311
Library Resources	15,069,216	-	3,515,679	419,523	18,165,372
Property Under Capital Leases	228,037	-	-	146,699	81,338

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

Fiscal Year Ending June 30	Principal	Interest	Total
2017	$ 2,225,000	$ 954,766	$ 3,179,766
2018	2,315,000	863,924	3,178,924
2019	2,415,000	768,299	3,183,299
2020	2,515,000	667,211	3,182,211
2021	2,620,000	558,199	3,178,199
2022-2026	10,035,000	1,131,444	11,166,444
Subtotal	22,125,000	4,943,843	27,068,843
Net Discounts and Premiums	(15,813)	-	(15,813)
Total	$ 22,109,187	$ 4,943,843	$ 27,053,030

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

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

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

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

primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2016, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled $78,297,329. The current portion of the compensated absences liability, $6,591,719

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

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

Annual	Percentage of Annual OPEB Cost

sharing of benefit costs between the employer and participating members. The actuarial calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial valuations used actuarial methods and assumptions

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

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

Certificates of Participation 2013B (refunded Series 2007 Certificates – Health). On September 3, 2013, the USF Financing Corporation issued the $20,855,000 Certificates of Participation Series 2013B to refund the Series 2007 Health Certificates of Participation. The tax-exempt, variable rate Certificates are hedged to limit the effect of changes in interest rates. The Certificates have an interest rate of 4.25 and mature in 2037.Serilr6( )11.3(4.)-6.6(250.4(f)-77.5r)-e$7(r)TJ(er)-6(t)-666.6(i)4.5(f)-625(i)-6

For the Series 2015A

Note was issued under the Build America Bonds program, the net interest cost is equal to 65 percent of the gross interest rate. Pursuant to the requirements of the amended Balanced Budget and Emergency Deficit Control Act of 1985, during the 2015 agreement, as amended on March 24, 2008, is 3.552 percent and the interest rate swap agreement expires July 1, 2037.

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

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

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

As of June 30, 2016, the USF Financing Corporation was not exposed to credit risk on its outstanding interest rate swap agreements because the agreements had a negative fair value. However, should interest rates change and the fair value of the swap agreements become positive, the USF Financing Corporation would be exposed to credit risk in the amount of the derivative's fair value.

The USF Financing Corporation is exposed to the risk (basis risk) that a mismatch occurs between the interest cost of the underlying variable rate certificates and the variable rate payment received on the associated interest rate swap agreement. The USF Financing Corporation mitigates this risk by analyzing potential debt and swap interest rate index structures to ensure an effective hedge of the cash flows and tracks the spread of certificate rates paid to the hedged rates, typically a few basis points.

The USF Financing Corporation is exposed to the risk (rollover risk) that the interest rate swap agreements or letters of credit mature prior to the termination of the variable rate debt. The USF Financing Corporation mitigates this risk by assessing, years in advance of the maturity of these items, the amount of variable rate debt then outstanding and makes provisions for extending these items. Maintaining strong credit ratings for the USF Financing Corporation and the underlying bond system plays an important role in this process.

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

10. Retirement Plans –

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

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

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

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

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions. At June 30, 2016, the University reported a liability of $72,084,066 for its proportionate share of the net pension liability. The current portion of the net pension liability is the University's proportionate share of benefit payments expected to be paid within one year, net of the University's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to the HIS Plan actuarial valuation as of July 1, 2014. The University's proportionate share of the net pension liability was based on the University's 2014-15 fiscal year contributions relative to the total 2014-15 f1opor08(J)2.7(.( )T)-6.6(e s)-2C42w 16.989 43 0 Td Tc 0.20e s6.6(i

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

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

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

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

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

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

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

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

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

11. Retirement Plans –

The University's

$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of $2 million per occurrence were commercially insured up to $54 million for named windstorm and flood losses through February 14, 2016, and increased to $85 million starting February 15, 2016. For perils other than named windstorm and flood, losses in excess of $2 million per occurrence were commercially insured up to $200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to $200,000 per person, and $300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past 3 fiscal years.

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

<u>University Self-Insurance Program</u>.

The

14. Litigation

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

15. Functional Distribution o f Operating E xpenses

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net position are presented by natural clsity'stit tit fo

Condensed Statement of Net Position

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

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

	Parking Facility

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

Condensed Statement of Net Position Tw 10.018 Tc 0.018 Twj -0.01

	University of South Florida Foundation, Inc.	University of South Florida Alumni Association, Inc.	USF Health Professions Conferencing Corporation	Sun Dome, Inc.	University of South Florida Research Foundation, Inc.	USF Financing Corporation and USF Property Corporation (1)	University Medical Service Association, Inc. (Faculty Practice Plan) (2)	Total
Assets:								
Current Assets	$ 128,316,998	$ 902,406	$ 2,187,731	$ 1,540,223	$ 18,899,504	$ 100,108,917	$ 74,399,347	$ 326,355,126
Capital Assets, Net	10,759,899	-	3,598,564	720,964	44,926,265	249,464,633	6,926,001	316,396,326
Other Noncurrent Assets	417,297,754	5,359,485	15,513	-	29,137,908	31,509,736	11,193,246	494,513,642
Total Assets	556,374,651	6,261,891	5,801,808	2,261,187	92,963,677	381,083,286	92,518,594	1,137,265,094
Deferred Outflows of Resources	-	-	-	-	497,068	-	-	497,068
Liabilities:								
Current Liabilities	10,722,055	2,219,040	4,641,317	1,172,235	11,221,640	16,979,729	14,061,101	61,017,117
Noncurrent Liabilities	5,447,403	-	58,234	616,235	30,217,068	360,521,960	1,136,094	397,996,994
Total Liabilities	16,169,458							

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

	University of South Florida Foundation, Inc.	University of South Florida Alumni Association, Inc.	USF Health Professions Conferencing Corporation	Sun Dome, Inc.	University of South Florida Research Foundation, Inc.	USF Financing Corporation and USF Property Corporation (1)	University Medical Service Association, Inc. (Faculty Practice Plan) (2)	Total
Operating Revenues	$ 51,923,140	$ 2,621,229	$ 18,567,624	$ 8,375,635	$ 12,696,158	$ 53,216,060	$ 241,980,688	$ 389,380,534
Operating Expenses	(63,291,714)	(2,574,481)	(17,134,266)	(7,792,763)	(9,672,191)	(31,108,162)	(252,380,633)	(383,954,210)
Operating Income (Loss)	(11,368,574)	46,748	1,433,358	582,872	3,023,967	22,107,898	(10,399,945)	5,426,324

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19. Subsequent Events

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

USF Financing Corporation – Component Unit

Conversi on of Series 2013A Certificates of Participation

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

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	$ -	$ 230,266,000	$ 230,266,000	0%	$ 463,709,057	49.7%
7/1/2013	-	247,391,000	247,391,000	0%	482,063,719	51.3%
7/1/2015	-	348,214,000	348,214,000	0%	498,680,238	69.8%

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

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

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

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

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

Schedule of University Contributions – Florida Retirement System Pension Plan

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

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

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

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

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

Schedule of University Contributions – Health Insurance Subsidy Pension Plan

	2016 (1)	2015 (1)	2014 (1)
Contractually required HIS contribution	$ 3,647,462	$ 2,701,889	$ 2,291,312
HIS contributions in relation to the contractually required HIS contribution	3,647,462	2,701,889	2,291,312
HIS contribution deficiency (excess)	-		

AUDITOR GENERAL
STATE OF FLORIDA

Sherrill F. Norman, CPA
Auditor General

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Phone: (850) 412-2722
Fax: (850) 488-6975

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
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