



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



**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
Financial Audit

For the Fiscal Year Ended June 30, 2005

During the audit period, the President of the University was Dr. Judy L. Genshaft. The St. Petersburg Campus Regional Chancellor was Dr. Karen A. White. The Campus Board members of the University of South Florida St. Petersburg and the Board of Trustee members of the University of South Florida who served during the audit period are listed below:

**St. Petersburg Campus Board Members**

Ann Wilkins Duncan, Chair to 2-20-05 (1)  
Debbie Nye Sembler, Chair from 5-19-05 (1)  
Dr. David Welch, Vice Chair  
Rick Davis  
Bill Habermeyer from 7-21-04  
Dr. Gus Stavros  
Dennis Zank to 7-20-04

**University Board of Trustee Members**

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

Notes: (1) Chair position remained vacant from February 21, 2005, through May 18, 2005.  
(2) Faculty senate chair.  
(3) Student body president.

## UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG

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**EXECUTIVE SUMMARY**

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The audit of the financial statements of the University of South Florida St. Petersburg (Regional Campus), a regional campus of the University of South Florida (a component unit of the State of Florida), for the fiscal year ended June 30, 2005, was conducted pursuant to Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The scope of this audit included an examination of the financial statements of the Regional Campus, 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.

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

- We found that the Regional Campus's financial statements presented fairly, in all material respects, the financial positions of the Regional Campus as of June 30, 2005; the revenues, expenses, and changes in net assets; and the cash flows for the fiscal year then ended.
- We noted no matters involving the Regional Campus'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 made in accordance with applicable *Government Auditing Standards* issued by the Comptroller General of the United States. This audit was coordinated by Cathi Davis, CPA, and supervised by Karen J. Collington, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at [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 St. Petersburg, a regional campus of the University of South Florida (a component unit of the State of Florida), as of and for the fiscal year ended June 30, 2005, as shown on pages 11 through 30. These financial statements are the responsibility of the Regional Campus's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 provides a reasonable basis for our opinions.

As discussed in note 1 to the financial statements, the financial statements of the University of South Florida St. Petersburg (Regional Campus) have been prepared for use by the Southern Association of Colleges and Schools, and are intended to present the financial position and the changes in financial position and cash flows of only that portion of the University of South Florida that is attributable to the transactions of the Regional Campus. They do not purport to, and do not, present fairly the financial position of the University of South Florida as of June 30, 2005, and the changes in its financial position and cash flows for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Regional Campus as of June 30, 2005, and the changes in financial position and cash flows,

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 Regional Campus changed its method of reporting certain Federal and State student financial aid moneys for the 2004-05 fiscal year in accordance with GASB Statements No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, and No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This affects the comparability of amounts reported as operating and nonoperating revenues, and operating expenses, on the statement of revenues, expenses, and changes in net assets for the 2004-05 fiscal year with amounts reported for the 2003-04 fiscal year.

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 5 through 10 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  
January 20, 2006



WILLIAM O. MONROE, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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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 have audited the financial statements of the University of South Florida St. Petersburg, a regional campus of the University of South Florida (a component unit of the State of Florida), as of and for the fiscal year ended June 30, 2005, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. As discussed in note 1, the financial statements of the University of South Florida St. Petersburg (Regional Campus) have been prepared for use by the Southern Association of Colleges and Schools, and are intended to present the financial position and the changes in financial position and cash flows of only that portion of the University of South Florida that is attributable to the transactions of the Regional Campus. 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.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Regional Campus's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the Regional Campus'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 Regional Campus'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,

A handwritten signature in black ink that reads "William O. Monroe". The signature is written in a cursive, flowing style.

William O. Monroe, CPA  
January 20, 2006



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

University management has prepared the financial statements, the related note disclosures, and the management's discussion and analysis, and is responsible for the completeness and fairness of this information.

**FINANCIAL HIGHLIGHTS****THE STATEMENT OF NET ASSETS**

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

Net assets of the Regional Campus are determined by subtracting liabilities from assets. This provides an indication of the overall financial condition of the Regional Campus. Net assets are reported in three major categories. The first category, invested in capital assets, net of related debt, provides the Regional Campus's equity in property, plant, and equipment owned by the Regional Campus. Restricted net assets are another category. Restricted expendable net assets are available for use by the Regional Campus, 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 Regional Campus for any lawful purpose of the Regional Campus.

The following table summarizes the Regional Campus's assets, liabilities and net assets as of June 30, 2005, and June 30, 2004:

| <b>Condensed Statement of Net Assets<br/>(In Thousands)</b> |                         |                         |
|---|-------------------------|-------------------------|
|   | <u>2005</u>             | <u>2004</u>             |
| <b>Assets</b>   |                         |                         |
| Current Assets  | \$ 16,614               | \$ 16,498               |
| Capital Assets, Net   | 43,455                  | 43,459                  |
| Other Noncurrent Assets                                     | <u>28,402</u>           | <u>801</u>              |
| <b>Total Assets</b>   | <u>88,471</u>           | <u>60,758</u>           |
| <b>Liabilities</b>  |                         |                         |
| Current Liabilities   | 3,943                   | 5,910                   |
| Noncurrent Liabilities                                      | <u>30,229</u>           | <u>1,236</u>            |
| <b>Total Liabilities</b>                                    | <u>34,172</u>           | <u>7,146</u>            |
| <b>Net Assets</b>   |                         |                         |
| Invested in Capital Assets,<br>Net of Related Debt          | 41,461                  | 43,370                  |
| Restricted  | 1,923                   | 2,242                   |
| Unrestricted  | <u>10,915</u>           | <u>8,000</u>            |
| <b>Total Net Assets</b>                                     | <u><u>\$ 54,299</u></u> | <u><u>\$ 53,612</u></u> |

Unrestricted net assets increased by \$2.9 million, while current assets decreased \$0.4 million (excluding an increase of \$0.5 million that was attributed to the addition of the USF Financing Corporation discussed later in the Debt section). Current liabilities decreased by \$2.6 million (excluding an increase of \$0.6 million attributed to the USF Financing Corporation), due primarily to the elimination of adjustments for obligations under security lending and reverse repurchase agreements. The Regional Campus's investments are managed by the State Treasury. Under its authority, the State Treasury enters into security lending and reverse repurchase agreements that affect both current assets and liabilities but have no effect on net assets. However, during this current year, the State of Florida has determined that it is more appropriate to recognize these adjustment amounts on the State of Florida financial statements. Capital assets decreased by \$1.9 million (excluding an increase of \$1.9 million attributed to the USF Financing Corporation). The decrease was due to a change in accounting estimate that decreased the depreciable lives for buildings (see additional discussion below in the STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS section). Total net assets increased by \$0.8 million (excluding a decrease of \$0.1 million attributed to the USF Financing Corporation).

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

Changes in total net assets are based on the activity presented in the statement of revenues, expenses, and changes in net assets. The purpose of this statement is to show the operating and nonoperating revenues received by the

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

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

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

**Condensed Statement of Revenues, Expenses, and  
Changes in Net Assets  
(In Thousands)**

|  | <u>2004-05</u>         | <u>2003-04</u>         |
|--|------------------------|------------------------|
| <b>Operating Revenues</b>  |                        |                        |
| Student Tuition and Fees, Net  | \$ 5,522               | \$ 5,704               |
| Grants and Contracts   | 3,492                  | 3,856                  |
| Other Operating Revenues   | <u>1,066</u>           | <u>1,093</u>           |
| <b>Total Operating Revenues</b>  | <u>10,080</u>          | <u>10,653</u>          |
| <b>Operating Expenses</b>  |                        |                        |
| Compensation and Employee Benefits   | 26,812                 | 24,961                 |
| Services and Supplies  | 4,694                  | 5,084                  |
| Other  | <u>10,200</u>          | <u>4,332</u>           |
| <b>Total Operating Expenses</b>  | <u>41,706</u>          | <u>34,377</u>          |
| <b>Operating Loss</b>  | <u>(31,626)</u>        | <u>(23,724)</u>        |
| <b>Nonoperating Revenues (Expenses)</b>                                    |                        |                        |
| State Appropriations   | 26,400                 | 25,179                 |
| Other, Net   | <u>3,721</u>           | <u>(412)</u>           |
| <b>Net Nonoperating Revenues</b>   | <u>30,121</u>          | <u>24,767</u>          |
| <b>Income (Loss) Before Other Revenues,<br/>Expenses, Gains, or Losses</b> | (1,505)                | 1,043                  |
| Other Revenues   | <u>2,192</u>           | <u>4,300</u>           |
| <b>Increase in Net Assets</b>  | 687                    | 5,343                  |
| Net Assets, Beginning of Year  | <u>53,612</u>          | <u>48,269</u>          |
| <b>Net Assets, End of Year</b>   | <u><u>\$54,299</u></u> | <u><u>\$53,612</u></u> |

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

- Student tuition and fees (before tuition scholarship allowances) increased by approximately \$0.6 million. The increase is due to the tuition rate increase for the 2004-05 fiscal year (6 percent for resident undergraduates) and to a change in the mix of undergraduate and graduate enrollments. Overall, FTE enrollment actually declined about 5 percent for the year, although graduate enrollments, which have much higher tuition, were up by more than 11 percent.
- Overall, operating expenses increased by \$7.3 million with the increase being attributable to three main factors. First, compensation and employee benefits increased by \$1.9 million as a result of a \$1,000 per employee bonus that was granted in December 2004, a 2 percent salary increase pool created for the A&P and USPS employee classes in August 2004, and a 5 percent pool created for faculty salary increases in December 2004. Second, the Regional Campus changed its method of reporting certain Federal and State student financial aid moneys for the 2004-05 fiscal year in accordance with GASB Statements No. 24, and No. 33 as noted above, which increased scholarships and fellowships expenses by \$2.9 million. Third, an adjustment was made to increase depreciation expense by \$2.6 million due to a reduction of

depreciable lives for buildings from 50 years to 40 years to more closely tie the estimated lives of these assets to their true experience.

### THE STATEMENT OF CASH FLOWS

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

| <b>Condensed Statement of Cash Flows<br/>(In Thousands)</b> |                      |
|---|----------------------|
|   | <u>2004-05</u>       |
| Cash Provided (Used) By:                                    |                      |
| Operating Activities  | \$ (25,972)          |
| Noncapital Financing Activities                             | 30,419               |
| Capital and Related Financing Activities                    | 26,291               |
| Investing Activities  | <u>(30,612)</u>      |
| <b>Net Increase in Cash and Cash Equivalents</b>            | 126                  |
| Cash and Cash Equivalents, Beginning of Year                | <u>12</u>            |
| <b>Cash and Cash Equivalents, End of Year</b>               | <u><u>\$ 138</u></u> |

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### DEBT

The Regional Campus's debt structure changed significantly in the 2004-05 fiscal year due to the formation of the USF Financing Corporation. The USF Financing Corporation was established to develop stable and predictable methods of financing and planning for the acquisition, construction, reconstruction, repair and rehabilitation of the University's physical infrastructure by implementing a comprehensive and integrated debt management system to provide an economical, efficient, and unified plan that considers the University mission, goals, and strategic plan. The USF Financing Corporation issued \$28.9 million in debt for a new Regional Campus Residence Hall and Parking Garage. In consideration of the USF Financing Corporation issuing this debt, the Regional Campus has granted an interest in all future collections of the Residence Services and Parking Operations through the lease term.

### ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

On July 1, 2001, the Regional Campus became fiscally autonomous through an act of the Florida Legislature. The budget outlook for the State continues to be favorable. Although enrollment declined overall for the year in review, it began to rebound somewhat beginning in the Summer 2005 term. Management is committed to restoring enrollment growth and has increased funding for marketing and recruitment, enhanced enrollment management software, and provided for more summer courses. In addition, on-campus housing is currently

under construction with an anticipated opening in August 2006, and the new parking facility is also being constructed and will be completed by June 2006. These major developments will contribute substantially to student life on campus, which will in turn facilitate enrollment growth.

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**FINANCIAL SECTION**


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**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG  
STATEMENT OF NET ASSETS  
As of June 30, 2005**

|   | <u>University</u>           |
|---|-----------------------------|
| <b>ASSETS</b>                                   |                             |
| Current Assets:                                 |                             |
| Cash and Cash Equivalents                       | \$ 137,938                  |
| Investments                                     | 13,096,769                  |
| Receivables, Net                                | 1,503,732                   |
| Due from State                                  | 1,425,000                   |
| Loans and Notes Receivable, Net                 | 58,556                      |
| Other Current Assets                            | <u>391,927</u>              |
| <b>Total Current Assets</b>                     | <u>16,613,922</u>           |
| Noncurrent Assets:                              |                             |
| Restricted Investments                          | 28,069,124                  |
| Loans and Notes Receivable, Net                 | 333,297                     |
| Depreciable Capital Assets, Net                 | 35,182,566                  |
| Nondepreciable Capital Assets                   | <u>8,272,547</u>            |
| <b>Total Noncurrent Assets</b>                  | <u>71,857,534</u>           |
| <b>TOTAL ASSETS</b>                             | <u><u>\$ 88,471,456</u></u> |
| <b>LIABILITIES</b>                              |                             |
| Current Liabilities:                            |                             |
| Accounts Payable                                | \$ 1,269,289                |
| Construction Contracts Payable                  | 7,268                       |
| Salary and Wages Payable                        | 705,669                     |
| Deposits Payable                                | 291,527                     |
| Due to Other University Campuses                | 1,891                       |
| Deferred Revenue                                | 1,530,919                   |
| Compensated Absences Payable                    | <u>137,179</u>              |
| <b>Total Current Liabilities</b>                | <u>3,943,742</u>            |
| Noncurrent Liabilities:                         |                             |
| Certificates of Participation Payable           | 28,900,000                  |
| Compensated Absences Payable                    | <u>1,328,619</u>            |
| <b>Total Noncurrent Liabilities</b>             | <u>30,228,619</u>           |
| <b>TOTAL LIABILITIES</b>                        | <u>34,172,361</u>           |
| <b>NET ASSETS</b>                               |                             |
| Invested In Capital Assets, Net of Related Debt | 41,460,844                  |
| Restricted for Expendable:                      |                             |
| Loans   | 391,776                     |
| Capital Projects                                | 1,297,994                   |
| Other Restricted Net Assets                     | 233,475                     |
| Unrestricted                                    | <u>10,915,006</u>           |
| <b>Total Net Assets</b>                         | <u>54,299,095</u>           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <u><u>\$ 88,471,456</u></u> |

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



**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the Fiscal Year Ended June 30, 2005**

|   | <u>University</u>    |
|---|----------------------|
| <b>REVENUES</b>   |                      |
| Operating Revenues:   |                      |
| Student Tuition and Fees, Net of Scholarship                      |                      |
| Allowances of \$2,011,071   | \$ 5,521,752         |
| Federal Grants and Contracts                                      | 2,880,568            |
| State and Local Grants and Contracts                              | 143,121              |
| Nongovernmental Grants and Contracts                              | 468,530              |
| Sales and Services of Educational Departments                     | 10,595               |
| Sales and Services of Auxiliary Enterprises                       | 1,034,321            |
| Other Operating Revenues  | <u>20,890</u>        |
| <b>Total Operating Revenues</b>                                   | <u>10,079,777</u>    |
| <b>EXPENSES</b>   |                      |
| Operating Expenses:   |                      |
| Compensation and Employee Benefits                                | 26,811,905           |
| Services and Supplies   | 4,694,201            |
| Utilities   | 1,674,118            |
| Scholarships and Fellowships                                      | 3,999,209            |
| Depreciation  | <u>4,525,999</u>     |
| <b>Total Operating Expenses</b>                                   | <u>41,705,432</u>    |
| <b>Operating Loss</b>   | <u>(31,625,655)</u>  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                           |                      |
| State Appropriations  | 26,399,977           |
| Federal and State Student Financial Aid                           | 3,696,815            |
| Investment Income   | 101,738              |
| Unrealized Gains and Losses                                       | 135,857              |
| Interest on Asset-Related Debt                                    | (152,930)            |
| Other Nonoperating Expenses                                       | <u>(60,392)</u>      |
| <b>Net Nonoperating Revenues</b>                                  | <u>30,121,065</u>    |
| <b>Loss Before Other Revenues, Expenses, Gains,<br/>or Losses</b> | <u>(1,504,590)</u>   |
| Transfers from Other University Campuses                          | <u>2,192,081</u>     |
| <b>Increase in Net Assets</b>                                     | 687,491              |
| Net Assets, Beginning of Year                                     | <u>53,611,604</u>    |
| <b>Net Assets, End of Year</b>                                    | <u>\$ 54,299,095</u> |

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

**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2005**

|  | <u>University</u>        |
|--|--------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                          |                          |
| Tuition and Fees   | \$ 5,450,606             |
| Grants and Contracts   | 4,326,921                |
| Sales and Services of Educational Departments                        | 10,595                   |
| Sales and Services of Auxiliary Enterprises                          | 1,034,321                |
| Interest on Loans Receivable   | 76                       |
| Other Operating Receipts   | 20,890                   |
| Payments to Employees  | (26,627,764)             |
| Payments to Suppliers for Goods and Services                         | (6,228,140)              |
| Payments to Students for Scholarships and Fellowships                | (3,999,209)              |
| Net Loans Issued to Students   | 39,868                   |
| <b>Net Cash Used by Operating Activities</b>                         | <u>(25,971,836)</u>      |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>               |                          |
| State Appropriations   | 26,399,977               |
| Operating Subsidies and Transfers                                    | 9,682                    |
| Net Change in Funds Held for Others                                  | 314,273                  |
| Other Nonoperating Receipts  | 3,697,815                |
| Other Nonoperating Expenses  | (2,921)                  |
| <b>Net Cash Provided by Noncapital Financing Activities</b>          | <u>30,418,826</u>        |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>      |                          |
| Proceeds from Capital Debt   | 28,900,000               |
| Capital Subsidies and Transfers                                      | 780,111                  |
| Purchases of Capital Assets  | (3,235,375)              |
| Interest Paid on Capital Debt  | (152,930)                |
| <b>Net Cash Provided by Capital and Related Financing Activities</b> | <u>26,291,806</u>        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                          |                          |
| Purchase of Investments, Net   | (30,714,171)             |
| Investment Income  | 101,738                  |
| <b>Net Cash Used by Investing Activities</b>                         | <u>(30,612,433)</u>      |
| <b>Net Increase in Cash and Cash Equivalents</b>                     | 126,363                  |
| Cash and Cash Equivalents, Beginning of Year                         | 11,575                   |
| <b>Cash and Cash Equivalents, End of Year</b>                        | <u><u>\$ 137,938</u></u> |

**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
**STATEMENT OF CASH FLOWS (Continued)**  
**For the Fiscal Year Ended June 30, 2005**

|  | <u>University</u>             |
|--|-------------------------------|
| <b>RECONCILIATION OF NET OPERATING LOSS<br/>TO NET CASH USED BY OPERATING ACTIVITIES</b> |                               |
| Operating Loss   | \$ (31,625,655)               |
| Adjustments to Reconcile Net Operating Loss<br>to Net Cash Used by Operating Activities: |                               |
| Depreciation Expense   | 4,525,999                     |
| Change in Assets and Liabilities:  |                               |
| Accounts Receivables   | (6,999)                       |
| Contracts and Grants Receivables   | (513,517)                     |
| Interest Receivable  | 76                            |
| Loans and Notes Receivable   | 39,868                        |
| Deferred Charges and Other Assets  | (391,927)                     |
| Accounts Payable   | 532,107                       |
| Salaries and Wages Payable   | 78,359                        |
| Compensated Absences Payable   | 105,782                       |
| Deferred Revenue   | 1,284,071                     |
| <b>NET CASH USED BY OPERATING ACTIVITIES</b>   | <u><u>\$ (25,971,836)</u></u> |

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

**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity.** Effective July 1, 2001, Chapter 2001-170, Laws of Florida, designated that the St. Petersburg campus of the University of South Florida was established and should be known as the University of South Florida St. Petersburg. The Statute further stated that the University of South Florida St. Petersburg was to be fiscally autonomous, operated and maintained as a separate organizational and budget entity of the University of South Florida (a component unit of the State of Florida), and have a Campus Board and a Campus Executive Officer. Members of the Campus Board are appointed by the University of South Florida (University) Board of Trustees. The University of South Florida St. Petersburg (Regional Campus) has a governing board of five members residing in Pinellas County and is a legal body with specific budget authority over the Regional Campus. Campus Board members serve 4-year staggered terms.

For financial reporting purposes, the Regional Campus is a part of the University of South Florida. Accordingly, the financial statements of the Regional Campus are combined and reported in the financial statements of the University of South Florida for the fiscal year ended June 30, 2005. The financial statements of the Regional Campus have been prepared for use by the Southern Association of Colleges and Schools, and are intended to present the financial position and the changes in financial position and cash flows as of and for the fiscal year ended June 30, 2005, of only that portion of the University of South Florida that is attributable to the transactions of the Regional Campus.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. Application of these criteria determines potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete.

**Blended Component Units.** Based on the application of the criteria for determining component units, the following corporations were determined to be component units of the Regional Campus:

- The USF Financing Corporation was created in February 2005 and operates exclusively to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. Due to the substantial economic relationship between the Corporation and the Regional Campus, the Corporation's financial activities are included within the Regional Campus's reporting entity as a blended component unit.
- The USF Property Corporation was created in February 2005 and its primary purpose is to act as lessor in connection with "lease-purchase" financings in support of the activities and educational purposes of the University of South Florida. Due to the substantial economic relationship between

**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005**

the Corporation and the Regional Campus, the Corporation is considered a component unit of the Regional Campus, although the Corporation had no financial activity during the 2004-05 fiscal year.

**Basis of Presentation.** The Regional Campus's accounting policies conform with accounting principles generally accepted in the United States applicable to colleges and universities as prescribed by the Governmental Accounting Standards Board (GASB). The National Association of College and University Business Officers (NACUBO) also provides the Regional Campus 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 Regional Campus 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 (presented using the direct method in compliance with GASB Statement No. 9)
  - 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 Regional Campus's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

Interdepartmental transactions of auxiliary service departments have been accounted for as reductions of expenses and not revenues of those departments.

The Regional Campus'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.

**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005**

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

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

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 Regional Campus'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 Regional Campus and the amount that is actually paid by the student or the third party making payment on behalf of the student. The Regional Campus applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the Regional Campus 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.

**Cash and Cash Equivalents.** The amount reported as cash and cash equivalents consists of cash on hand and cash in demand accounts. Regional Campus 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.

**Capital Assets.** Regional Campus capital assets consist of land, buildings, infrastructure and other improvements, furniture and equipment, 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 Regional Campus 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

**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005**

- 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 certificates of participation payable and compensated absences payable that are not scheduled to be paid within the next fiscal year.

## **2. REPORTING CHANGES**

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

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

## **3. INVESTMENTS**

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds awaiting clearing with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The Regional Campus does not have a written investment policy. As such, pursuant to Section 218.415(17), Florida Statutes, the Regional Campus



**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005**

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; and Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

The USF Financing Corporation is included within the Regional Campus's reporting entity as a blended component unit as disclosed in Note 1. The USF Financing Corporation does not have a written investment policy. However, the investment procedures are the same as those used by the Regional Campus, which are governed by Florida Statutes.

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

| <u>Investment Type</u>                   | <u>Amount</u>                      |
|--|------------------------------------|
| External Investment Pools:               |                                    |
| Florida State Treasury                   | \$ 14,159,153                      |
| Money Market Mutual Fund                 | <u>27,006,740</u>                  |
| <b>Total Regional Campus Investments</b> | <b><u><u>\$ 41,165,893</u></u></b> |

**External Investment Pool**

The Regional Campus had investments totaling \$14,159,153 at June 30, 2005, in the State Treasury Special Purpose Investment Account (SPIA) investment pool representing ownership of a share of the pool, not the underlying securities. The Regional Campus's investments in the pool are reported at fair value. The State Treasury has taken the position that participants in the pool should disclose information related to interest rate risk and credit risk. The SPIA carried a credit rating of AA-f by Standard and Poor's and had an effective duration of 2.22 years at June 30, 2005. The Regional Campus has no policy for managing interest rate risk or credit risk for this investment pool, but relies on policies developed by the State Treasury. Disclosures for the State Treasury investment pool are included in the notes to the financial statements of the State's Comprehensive Annual Financial Report.

**Money Market Mutual Fund**

The Regional Campus's blended component unit (USF Financing Corporation) had investments totaling \$27,006,740, at June 30, 2005, in a money market mutual fund representing ownership of shares of the fund, not of the underlying securities. The Corporation's investments in the money market mutual fund are reported at fair value. Approximately 80 percent of the money market mutual fund's investments were in direct obligations of the United States Treasury. The money market mutual fund carried a credit rating of

**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005**

Aaa by Moody's and AAA by Standard and Poor's, and a weighted average maturity of less than 90 days. The Corporation has no policy for managing interest rate risk or credit risk for the money market mutual fund, but relies on policies developed by the administrators of the fund.

**4. RECEIVABLES**

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

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

**Allowance for Uncollectible Receivables.** Allowances for uncollectible accounts, and loans and notes receivable are reported based upon management's best estimate as of fiscal year-end considering type, age, collection history, and any other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of \$150,801 and \$104,715, respectively, at June 30, 2005.

**5. DUE FROM STATE**

This is the amount of Public Education Capital Outlay allocations due to the Regional Campus for renovations and repairs of Regional Campus facilities.

**6. CAPITAL ASSETS**

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

**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005**

| Description                                  | Beginning<br>Balance | Adjustments           | Additions           | Reductions          | Ending<br>Balance    |
|--|----------------------|-----------------------|---------------------|---------------------|----------------------|
| <b>Nondepreciable Capital Assets:</b>        |                      |                       |                     |                     |                      |
| Land   | \$ 6,228,322         | \$                    | \$                  | \$                  | \$ 6,228,322         |
| Construction in Progress                     | 352,317              |                       | 3,285,154           | 1,731,960           | 1,905,511            |
| Historical Treasures - Works of Art          | 138,714              |                       |                     |                     | 138,714              |
| <b>Total Nondepreciable Capital Assets</b>   | <b>\$ 6,719,353</b>  | <b>\$</b>             | <b>\$ 3,285,154</b> | <b>\$ 1,731,960</b> | <b>\$ 8,272,547</b>  |
| <b>Depreciable Capital Assets:</b>           |                      |                       |                     |                     |                      |
| Buildings                                    | \$ 41,579,037        | \$                    | \$ 1,978,734        | \$                  | \$ 43,557,771        |
| Infrastructure and Other Improvements        | 962,975              |                       |                     |                     | 962,975              |
| Furniture and Equipment                      | 6,111,125            |                       | 553,061             | 307,366             | 6,356,820            |
| Library Resources                            | 3,094,759            |                       | 476,629             |                     | 3,571,388            |
| Other Capital Assets                         | 543,250              |                       | 19,204              |                     | 562,454              |
| <b>Total Depreciable Capital Assets</b>      | <b>52,291,146</b>    |                       | <b>3,027,628</b>    | <b>307,366</b>      | <b>55,011,408</b>    |
| <b>Less, Accumulated Depreciation:</b>       |                      |                       |                     |                     |                      |
| Buildings                                    | 11,022,867           | 2,575,442             | 1,098,027           |                     | 14,696,336           |
| Infrastructure and Other Improvements        | 83,417               |                       | 129,232             |                     | 212,649              |
| Furniture and Equipment                      | 3,691,854            |                       | 491,007             | 248,896             | 3,933,965            |
| Library Resources                            | 642,416              |                       | 190,897             |                     | 833,313              |
| Other Capital Assets                         | 111,185              |                       | 41,394              |                     | 152,579              |
| <b>Total Accumulated Depreciation</b>        | <b>15,551,739</b>    | <b>2,575,442</b>      | <b>1,950,557</b>    | <b>248,896</b>      | <b>19,828,842</b>    |
| <b>Total Depreciable Capital Assets, Net</b> | <b>\$ 36,739,407</b> | <b>\$ (2,575,442)</b> | <b>\$ 1,077,071</b> | <b>\$ 58,470</b>    | <b>\$ 35,182,566</b> |

The Regional Campus changed its estimate for depreciating buildings from 50 years to 40 years. The \$2,575,442 amount in the adjustment column is the cumulative effect of this change in estimate for prior years.

## 7. DEFERRED REVENUE

Deferred revenue include amounts received prior to the end of the fiscal year, but related to subsequent accounting periods. As of June 30, 2005, the Regional Campus reported the following amounts as deferred revenue:

| Description                   | Amount              |
|-------------------------------|---------------------|
| Contracts and Grants          | \$ 1,528,276        |
| Auxiliary Operations          | 2,643               |
| <b>Total Deferred Revenue</b> | <b>\$ 1,530,919</b> |

## 8. LONG-TERM LIABILITIES

Long-term liabilities of the Regional Campus at June 30, 2005, include certificates of participation payable and compensated absences payable. Long-term liabilities activity for the fiscal year ended June 30, 2005, is shown below:

**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005**

| Description                           | Beginning<br>Balance | Additions            | Reductions        | Ending<br>Balance    | Current<br>Portion |
|---------------------------------------|----------------------|----------------------|-------------------|----------------------|--------------------|
| Certificates of Participation Payable | \$                   | \$ 28,900,000        | \$                | \$ 28,900,000        | \$                 |
| Compensated Absences Payable          | 1,360,016            | 225,981              | 120,199           | 1,465,798            | 137,179            |
| <b>Total Long-Term Liabilities</b>    | <b>\$ 1,360,016</b>  | <b>\$ 29,125,981</b> | <b>\$ 120,199</b> | <b>\$ 30,365,798</b> | <b>\$ 137,179</b>  |

**Certificates of Participation.** On May 25, 2005, the USF Financing Corporation issued \$92,250,000 Certificates of Participation Series 2005B. The proceeds derived from the issuance of the certificates were used, in part, to finance the acquisition and construction of a housing and parking facility at the Regional Campus totaling \$28,900,000.

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

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

Initially, interest on the certificates was determined at a 7-day auction period auction rate. To reduce the USF Financing Corporation's risk of interest rate changes with respect to the certificates, the USF Financing Corporation has entered into an interest rate swap agreement with a counterparty for the purpose of effectively changing the USF Financing Corporation's variable interest rate on the debt to a synthetic fixed-rate of 3.2195 percent. The USF Financing Corporation pays the counterparty a fixed payment of 3.2195 percent semi-annually and receives a variable payment monthly (67 percent of the 1 month US Dollar (USD)/London Interbank Offered Rate (LIBOR)/British Bankers Association (BBA)) from the counterparty. The swap agreement expires July 1, 2015, and the certificates mature July 1, 2035. The swap's notional amount of \$28,900,000 matches the \$28,900,000 of certificates.

As of June 30, 2005, the variable interest rate on the certificates was 2.295 percent, whereas the variable interest rate used to determine swap payments from the counterparty was 2.2378 percent. Using these interest rates, debt service requirements of the USF Financing Corporation's outstanding variable-rate debt

**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005**

and net swap payments are as follows (as rates vary, variable-rate bond interest payments and net swap payments will vary):

| Fiscal Year Ending June 30 | Variable-Rate Bonds  |                      | Interest Rate Swaps, Net | Total                |
|----------------------------|----------------------|----------------------|--------------------------|----------------------|
|                            | Principal            | Interest             |                          |                      |
| 2006                       | \$                   | \$ 331,628           | \$ 234,899               | \$ 566,527           |
| 2007                       |                      | 663,255              | 283,712                  | 946,967              |
| 2008                       |                      | 663,255              | 283,712                  | 946,967              |
| 2009                       | 575,000              | 656,657              | 286,801                  | 1,518,458            |
| 2010                       | 600,000              | 643,174              | 293,116                  | 1,536,290            |
| 2011-2015                  | 3,375,000            | 2,993,541            | 1,569,694                | 7,938,235            |
| 2016-2020                  | 4,075,000            | 2,567,818            | 166,306                  | 6,809,124            |
| 2021-2025                  | 5,000,000            | 2,048,861            |                          | 7,048,861            |
| 2026-2030                  | 6,125,000            | 1,412,859            |                          | 7,537,859            |
| 2031-2035                  | 7,475,000            | 635,428              |                          | 8,110,428            |
| 2036                       | 1,675,000            | 19,221               |                          | 1,694,221            |
| <b>Total</b>               | <b>\$ 28,900,000</b> | <b>\$ 12,635,697</b> | <b>\$ 3,118,240</b>      | <b>\$ 44,653,937</b> |

Because interest rates declined from the date the USF Financing Corporation entered into the swap agreement, the swap had a negative fair value of \$741,194 as of June 30, 2005. The fair value was obtained from a financial institution known to be an active participant in the capital markets. The swap will continue to have a negative fair value as long as current interest rates are below the original swap interest rates. The negative fair value may be countered by reductions in total interest payments required under the variable-rate bonds. Because the interest payments on the variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases.

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

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

**UNIVERSITY OF SOUTH FLORIDA ST. PETERSBURG**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005**

**Compensated Absences Payable.** Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors Rule 6C-5.920 and USF Rules 6C-10.104 and 6C-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 Regional Campus 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 Regional Campus expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. Consequently, the recording of the liability for compensated absences, without the corresponding recognition of such future resources, results in the appearance of a reduced ability to meet current obligations. At June 30, 2005, the estimated liability for compensated absences, which includes the Regional Campus's share of the Florida Retirement System and FICA contributions, totaled \$1,465,798. The current portion of the compensated absences liability for the Regional Campus is based on a percentage of the current liability reported by the University of South Florida.

**9. STATE RETIREMENT PROGRAMS**

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

The Florida Legislature reduced the vesting period of the Plan from 10 to 6 years of service effective July 1, 2001. Any member employed in a regularly established position as of July 1, 2001, with a total of 6 or more years of creditable service is considered vested. Former members who were not employed with a participating Plan employer on July 1, 2001, must return to covered employment for one year to become eligible for the six-year vesting provision. An exception to this one-year requirement applies to former members who are within one year of vesting under the pre-2001 vesting requirements. These members will only be required to work the lesser of one year or the amount of time it would have taken to vest in their class of membership prior to July 1, 2001. All members are eligible for normal retirement benefits at age 62

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or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (DROP), subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with a Florida Retirement System employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During DROP participation, deferred monthly benefits are held in the Florida Retirement System Trust Fund, and accrue interest. Upon termination of employment, the participant receives the total DROP benefits and begins to receive previously determined retirement benefits.

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

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

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

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

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



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The Regional Campus's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the Regional Campus. The Regional Campus's contributions to the Plan for the fiscal years ended June 30, 2003, June 30, 2004, and June 30, 2005, totaled \$476,303, \$556,082, and \$521,326, respectively, which were equal to the required contributions for each fiscal year.

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the Florida Retirement System, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant 10.43 percent of the participant's salary. A small amount remains in the Optional Retirement Program Trust Fund for administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by salary deduction, an amount not to exceed the percentage contributed by the Regional Campus to the participant's annuity account.

There were 181 Regional Campus participants during the 2004-05 fiscal year. Required contributions made to the Program totaled \$1,784,088, including \$652,718 from employee contributions.

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

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There were 24 Regional Campus participants during the 2004-05 fiscal year. Required contributions made to the PEORP totaled \$43,886.

**10. POST-EMPLOYMENT BENEFITS**

Pursuant to Section 112.363, Florida Statutes, the Florida Legislature established the Retiree Health Insurance Subsidy (HIS) to assist retirees of all State-administered retirement systems in paying health insurance costs. During the 2004-05 fiscal year, the HIS program was funded by required contributions consisting of 1.11 percent assessed against the payroll for all active employees covered in State-administered retirement systems. This assessment is included in the Florida Retirement System contribution rates presented in note 9.

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

**11. CONSTRUCTION COMMITMENTS**

The Regional Campus's major construction commitments at June 30, 2005, are as follows:

| <u>Project</u>   | <u>Contract<br/>Amount</u>  | <u>Completed<br/>to Date</u> | <u>Balance<br/>Committed</u> |
|------------------|-----------------------------|------------------------------|------------------------------|
| Housing Facility | \$ 15,086,138               | \$ 1,234,005                 | \$ 13,852,133                |
| Parking Facility | 11,029,736                  | 671,506                      | 10,358,230                   |
| <b>Total</b>     | <u><u>\$ 26,115,874</u></u> | <u><u>\$ 1,905,511</u></u>   | <u><u>\$ 24,210,363</u></u>  |

**12. RISK MANAGEMENT PROGRAMS**

Pursuant to Section 1001.72(3), Florida Statutes, the Regional Campus participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, and fleet automotive liability. During the 2004-05 fiscal year, the State retained the first \$2,000,000 of losses for each occurrence with an annual aggregate retention of \$40,000,000 for wind and flood and \$5,000,000 for perils other than wind and flood. Losses in excess of \$2,000,000 per occurrence were commercially insured up to \$85,000,000 for wind, \$50,000,000 for flood, and \$200,000,000 for perils other than wind and flood; and losses exceeding those amounts were retained by the State. Payments on tort claims are limited to \$100,000

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per person and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. There have been no significant reductions in insurance coverage from the prior year coverage. Settlements have not exceeded insurance coverage during the past three years.

Pursuant to Section 110.123, Florida Statutes, Regional Campus 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.

### **13. 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                      | \$ 14,764,346               |
| Research                         | 1,534,289                   |
| Academic Support                 | 5,950,249                   |
| Student Services                 | 1,800,219                   |
| Institutional Support            | 3,892,963                   |
| Operations of Plant              | 4,352,094                   |
| Scholarships                     | 4,073,891                   |
| Auxiliary Enterprises            | 811,382                     |
| Depreciation                     | 4,525,999                   |
| <b>Total Operating Expenses</b>  | <b><u>\$ 41,705,432</u></b> |

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**14. CURRENT UNRESTRICTED FUNDS**

The Southern Association of Colleges and Schools, Commission on Colleges, which establishes the accreditation requirements for institutions of higher education, requires a disclosure of the financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets. To meet this requirement, statements of net assets and revenues, expenses, and changes in net assets for the current unrestricted funds are presented, as follows:

**Statement of Current Unrestricted Funds Net Assets**

**Assets**

Current Assets:

|                           |                |
|---------------------------|----------------|
| Cash and Cash Equivalents | \$ 11,325      |
| Investments               | 13,362,855     |
| Receivables, Net          | <u>166,656</u> |

|                     |                          |
|---------------------|--------------------------|
| <b>Total Assets</b> | <u><u>13,540,836</u></u> |
|---------------------|--------------------------|

**Liabilities**

Current Liabilities:

|                                  |                |
|----------------------------------|----------------|
| Accounts Payable                 | 449,764        |
| Salary and Wages Payable         | 705,669        |
| Deposits Payable                 | 65             |
| Due to Other University Campuses | 1,891          |
| Deferred Revenue                 | 2,643          |
| Compensated Absences Payable     | <u>137,179</u> |

|                                  |                         |
|----------------------------------|-------------------------|
| <b>Total Current Liabilities</b> | <u><u>1,297,211</u></u> |
|----------------------------------|-------------------------|

Noncurrent Liabilities:

|                              |                  |
|------------------------------|------------------|
| Compensated Absences Payable | <u>1,328,619</u> |
|------------------------------|------------------|

|                                     |                         |
|-------------------------------------|-------------------------|
| <b>Total Noncurrent Liabilities</b> | <u><u>1,328,619</u></u> |
|-------------------------------------|-------------------------|

|                          |                         |
|--------------------------|-------------------------|
| <b>Total Liabilities</b> | <u><u>2,625,830</u></u> |
|--------------------------|-------------------------|

|                         |                             |
|-------------------------|-----------------------------|
| <b>Total Net Assets</b> | <u><u>\$ 10,915,006</u></u> |
|-------------------------|-----------------------------|

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**Statement of Current Unrestricted Funds Revenues,  
Expenses, and Changes in Net Assets**

**Revenues**

Operating Revenues:

|  |               |
|--|---------------|
| Student Tuition and Fees, Net of Scholarship Allowances of \$2,011,071 | \$ 5,513,101  |
| Sales and Services of Auxiliary Enterprises                            | 1,034,321     |
| Other Operating Revenues   | <u>20,890</u> |

|                                 |                         |
|---------------------------------|-------------------------|
| <b>Total Operating Revenues</b> | <b><u>6,568,312</u></b> |
|---------------------------------|-------------------------|

**Expenses**

Operating Expenses:

|                                    |                |
|------------------------------------|----------------|
| Compensation and Employee Benefits | 25,455,066     |
| Services and Supplies              | 4,185,941      |
| Utilities                          | 1,674,118      |
| Scholarships and Fellowships       | <u>307,233</u> |

|                                 |                          |
|---------------------------------|--------------------------|
| <b>Total Operating Expenses</b> | <b><u>31,622,358</u></b> |
|---------------------------------|--------------------------|

|                       |                            |
|-----------------------|----------------------------|
| <b>Operating Loss</b> | <b><u>(25,054,046)</u></b> |
|-----------------------|----------------------------|

**Nonoperating Revenues (Expenses):**

|                             |              |
|-----------------------------|--------------|
| State Appropriations        | 26,399,977   |
| Investment Income           | 89,797       |
| Unrealized Gains and Losses | 125,521      |
| Other Nonoperating Expenses | <u>(833)</u> |

|                                  |                          |
|----------------------------------|--------------------------|
| <b>Net Nonoperating Revenues</b> | <b><u>26,614,462</u></b> |
|----------------------------------|--------------------------|

**Income Before Other Revenues,  
Expenses, Gains, or Losses**

|  |                  |
|--|------------------|
|  | 1,560,416        |
| Transfers from Other Funds             | 1,623,465        |
| Transfers to Other University Campuses | <u>(269,100)</u> |

|                               |                  |
|-------------------------------|------------------|
| <b>Increase in Net Assets</b> | <b>2,914,781</b> |
|-------------------------------|------------------|

|                               |                  |
|-------------------------------|------------------|
| Net Assets, Beginning of Year | <u>8,000,225</u> |
|-------------------------------|------------------|

|                                |                             |
|--------------------------------|-----------------------------|
| <b>Net Assets, End of Year</b> | <b><u>\$ 10,915,006</u></b> |
|--------------------------------|-----------------------------|