

FINANCIAL STATEMENTS

University of South Florida Foundation, Inc.  
Years Ended June 30, 2010 and 2009  
With Report of Independent Certified Public Accountants

Ernst & Young LLP

 **ERNST & YOUNG**

University of South Florida Foundation, Inc.

Financial Statements

Years Ended June 30, 2010 and 2009

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## Report of Independent Certified Public Accountants

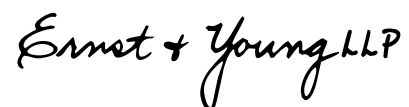
The Board of Trustees  
University of South Florida Foundation, Inc.

We have audited the accompanying statements of financial position of the University of South Florida Foundation, Inc. (the Foundation) as of June 30, 2010 and 2009, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of South Florida Foundation, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

October 28, 2010

University of South Florida Foundation, Inc.

Statements of Financial Position

	June 30	
	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 431,992	\$ 2,744,035
Operating investment pool	79,765,824	65,326,355
Accrued investment receivable	543,914	434,494
Contributions receivable, net	42,074,130	34,838,198
Other receivables, net	1,673,070	1,301,808
Endowment investment pool	313,232,785	287,137,931
Remainder interest trusts	1,705,499	1,607,928
Funds held in trust by others	7,848,062	7,433,760
Books and art objects	2,553,835	2,443,985
Due from University of South Florida	796,490	2,968,713
Land, buildings, and equipment, net	564,345	586,843
Capitalized lease receivable, net	10,515,000	11,100,000
Total assets	<u>\$ 461,704,946</u>	<u>\$ 417,924,050</u>
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,020,106	\$ 1,440,352
Annuities and life income trusts payable	766,490	717,335
Amounts due to third-party beneficiaries	12,690,695	10,921,791
Due to the University of South Florida	17,283,450	12,863,860
Interest rate swap payable	645,826	648,219
Certificates of participation payable	10,515,000	11,100,000
Total liabilities	<u>43,921,567</u>	<u>37,691,557</u>
Net assets:		
Unrestricted net assets (deficit)	(16,542,081)	(24,656,552)
Temporarily restricted net assets	137,573,440	117,201,661
Permanently restricted net assets	296,752,020	287,687,384
Total net assets	<u>417,783,379</u>	<u>380,232,493</u>
Total liabilities and net assets	<u>\$ 461,704,946</u>	<u>\$ 417,924,050</u>

See accompanying notes.

University of South Florida Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions, gifts, and bequests	\$ 148,484	\$ 29,128,923	\$ 7,992,855	\$ 37,270,262
Special events and fundraising activities	50,760	1,570,797	2,520	1,624,077
Lease income	358,902	-	-	358,902
Investment gains, net	17,536,956	26,822,999	221,620	44,581,575
Other	3,418,480	2,063,752	666	5,482,898
Net assets released from restrictions	38,020,386	(38,020,386)	-	-
<b>Total revenues</b>	<b>59,533,968</b>	<b>21,566,085</b>	<b>8,217,661</b>	<b>89,317,714</b>
Expenses:				
Program services	44,110,637	-	-	44,110,637
Operating costs	3,117,158	-	-	3,117,158
Fundraising costs	4,196,609	-	-	4,196,609
Provision for uncollectible pledges	(4,907)	1,090,119	(579,877)	505,335
<b>Total expenses</b>	<b>51,419,497</b>	<b>1,090,119</b>	<b>(579,877)</b>	<b>51,929,739</b>
Change in net assets before change in value split interest agreements	8,114,471	20,475,966	8,797,538	37,387,975
Change in value of split interest agreements	-	(104,187)	267,098	162,911
<b>Change in net assets</b>	<b>8,114,471</b>	<b>20,371,779</b>	<b>9,064,636</b>	<b>37,550,886</b>
Net (deficit) assets, beginning of year	(24,656,552)	117,201,661	287,687,384	380,232,493
<b>Net (deficit) assets, end of year</b>	<b>\$ (16,542,081)</b>	<b>\$ 137,573,440</b>	<b>\$ 296,752,020</b>	<b>\$ 417,783,379</b>

*See accompanying notes.*

University of South Florida Foundation, Inc.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2009

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues:</b>				
Contributions, gifts, and bequests	\$ 345,580	\$ 34,682,542	\$ 8,006	\$ 35,036,128
Special events and fundraising activities	28,847	1,597,024	-	1,625,871
Lease income	740,422	-	-	740,422
Investment losses, net	(19,945,377)	(46,457,761)	(127,801)	(66,530,939)
Other	3,465,352	448,648	-	3,914,000
Net assets released from restrictions	30,186,453	(30,186,453)	-	-
<b>Total revenues</b>	<b>14,821,277</b>	<b>(39,916,000)</b>	<b>(119,795)</b>	<b>(25,214,518)</b>
<b>Expenses:</b>				
Program services	36,629,359	-	-	36,629,359
Operating costs	3,603,807	-	-	3,603,807
Fundraising costs	4,224,941	-	-	4,224,941
Provision for uncollectible pledges	(27,325)	518,700	24,495	515,870
<b>Total expenses</b>	<b>44,430,782</b>	<b>518,700</b>	<b>24,495</b>	<b>44,973,977</b>
Change in net assets before change in value split interest agreements	(29,609,505)	(40,434,700)	(144,290)	(70,188,495)
Change in value of split interest agreements	-	(199,170)	(1,059,368)	(1,258,538)
<b>Change in net assets</b>	<b>(29,609,505)</b>	<b>(40,633,870)</b>	<b>(1,203,658)</b>	<b>(71,447,033)</b>
Net assets, beginning of year	4,952,953	157,835,531	288,891,042	451,679,526
<b>Net (deficit) assets, end of year</b>	<b>\$ (24,656,552)</b>	<b>\$ 117,201,661</b>	<b>\$ 287,687,384</b>	<b>\$ 380,232,493</b>

*See accompanying notes.*

# University of South Florida Foundation, Inc.

## Statements of Cash Flows

	June 30	
	2010	2009
<b>Operating activities</b>		
Change in net assets	\$ 37,550,886	\$ (71,447,033)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Change in the provision for losses and discounts on contributions receivable	(1,707,373)	73,790
Contributions restricted for long-term investment	(2,706,785)	(10,361,881)
Depreciation	22,498	26,618
Investment (gains) loss, net	(34,988,866)	75,505,768
Change in value of split interest agreements	(162,911)	1,258,538
Changes in assets and liabilities:		
Contributions receivable	(5,528,559)	(4,701,924)
Other receivables, net	(252,566)	(342,322)
Books and art objects	(109,850)	(140,859)
Due from the University of South Florida	72,223	(207,375)
Accounts payable and accrued expenses	579,754	(216,469)
Annuities and life income trusts payable	11,528	(78,375)
Amounts due to third-party beneficiaries	417,721	(4,664,088)
Due to the University of South Florida	4,417,197	2,459,896
Net cash used in operating activities	(2,385,103)	(12,835,716)
<b>Investing activities</b>		
Proceeds from sales of land, buildings, and equipment	-	80,000
Loss on disposal of fixed assets	-	(41,250)
Interest and dividends reinvested	(9,592,709)	(8,974,829)
Purchases of pooled investments	(344,581,713)	(291,875,657)
Proceeds from sales and maturities of pooled investments	349,440,697	304,287,714
Net cash (used in) provided by investing activities	(4,733,725)	3,475,978
<b>Financing activities</b>		
Proceeds from contributions restricted for long-term investment	2,706,785	10,361,881
Repayment (issuance) of loan to the University of South Florida	2,100,000	(2,100,000)
Principal payments received on capitalized lease receivable	585,000	560,000
Change in value of interest rate swap payable	2,393	359,988
Net transfer from the University of South Florida	(2,393)	(359,988)
Principal payments on bonds payable	(585,000)	(560,000)
Net cash provided by financing activities	4,806,785	8,261,881
Change in cash and cash equivalents	(2,312,043)	(1,097,857)
Cash and cash equivalents, beginning of year	2,744,035	3,841,892
Cash and cash equivalents, end of year	\$ 431,992	\$ 2,744,035

See accompanying notes.

University of South Florida Foundation, Inc.

Statement of Functional Expenses

Year Ended June 30, 2010

	Foundation General	Academic Affairs	Student Affairs	University General	Total
<b>Program services</b>					
Salaries and other supplements	\$ -	\$ 15,030,357	\$ 12,309	\$ 160,000	\$ 15,202,666
Community relations	-	1,383,709	18,865	3,489	1,406,063
Travel and per diems	-	1,413,553	13,705	-	1,427,258
Supplies	-	1,222,889	3,062	-	1,225,951
Scholarships and awards	-	4,258,102	-	-	4,258,102
Conferences and seminars	-	765,721	855	-	766,576
University services	-	11,785,555	2,431	17,035	11,805,021
Postage and printing	-	546,815	2,224	2,345	551,384
Books and journals	-	90,630	241	-	90,871
Building repair and maintenance	-	516,476	-	-	516,476
Transfers to related organizations	-	1,445,000	-	-	1,445,000
Change in fair value of interest rate swap	-	-	-	(2,393)	(2,393)
Licenses, taxes, and assessments	-	1,601	-	-	1,601
Loss on sale of fixed assets	-	42	-	-	42
Insurance	-	154,437	-	32,002	186,439
Depreciation	-	21,995	-	-	21,995
Interest expense	-	-	-	361,295	361,295
Service and independent contractors	-	4,467,533	7,657	40,302	4,515,492
Other program costs	-	315,007	8,729	7,062	330,798
	-	43,419,422	70,078	621,137	44,110,637
<b>Operating costs</b>					
Salaries and other supplements	1,659,763	-	-	-	1,659,763
Community relations	151,519	-	-	-	151,519
Travel and per diems	128,039	-	-	-	128,039
Supplies	79,322	-	-	-	79,322
Conferences and seminars	141,318	-	-	-	141,318
University services	84,559	-	-	-	84,559
Postage and printing	217,481	-	-	-	217,481
Books and journals	1,046	-	-	-	1,046
Building repair and maintenance	157,302	-	-	-	157,302
Service and independent contractors	446,964	-	-	-	446,964
Licenses, taxes, and assessments	1,572	-	-	-	1,572
Insurance	2,145	-	-	-	2,145
Depreciation	503	-	-	-	503
Other operating costs	45,625	-	-	-	45,625
	3,117,158	-	-	-	3,117,158
<b>Fundraising costs</b>					
Salaries and other supplements	-	-	-	2,070,477	2,070,477
Community relations	-	-	-	269,758	269,758
Travel and per diems	-	-	-	254,420	254,420
Supplies	-	-	-	39,619	39,619
Conferences and seminars	-	-	-	62,065	62,065
University services	-	-	-	4,713	4,713
Postage and printing	-	-	-	177,111	177,111
Books and journals	-	-	-	2,736	2,736
Building repair and maintenance	-	-	-	1,515	1,515
Service and independent contractors	-	-	-	911,475	911,475
Licenses, taxes, and assessments	-	-	-	138	138
Alumni Association financial support	-	-	-	400,000	400,000
Other operating costs	-	-	-	2,582	2,582
	-	-	-	4,196,609	4,196,609
<b>Other</b>					
Provision for uncollectible pledges	2,520	1,372,095	68,642	(937,922)	505,335
Total	\$ 3,119,678	\$ 44,791,517	\$ 138,720	\$ 3,879,824	\$ 51,929,739

See accompanying notes.



University of South Florida Foundation, Inc.

Statement of Functional Expenses

Year Ended June 30, 2009

	Foundation General	Academic Affairs	Student Affairs	University General	Total
<b>Program services</b>					
Salaries and other supplements	\$ -	\$ 16,751,573	\$ -	\$ 13,138	\$ 16,764,711
Community relations	-	1,056,076	4,776	-	1,060,852
Travel and per diems	-	1,387,262	6,816	15,994	1,410,072
Supplies	-	1,282,506	2,856	3,226	1,288,588
Scholarships and awards	-	3,418,097	713,253	16,450	4,147,800
Conferences and seminars	-	941,710	1,185	4,487	947,382
University services	-	6,651,645	-	25,808	6,677,453
Postage and printing	-	442,506	4,902	9,165	456,573
Books and journals	-	54,559	-	906	55,465
Building repair and maintenance	-	422,260	4,861	-	427,121
Change in fair value of interest rate swap	-	-	-	359,988	359,988
Licenses, taxes, and assessments	-	62,983	4,100	-	67,083
Loss on sale of fixed assets	-	10,740	-	-	10,740
Insurance	-	48,266	-	824	49,090
Depreciation	-	25,745	-	-	25,745
Interest expense	-	-	-	380,434	380,434
Service and independent contractors	-	1,705,919	8,167	12,541	1,726,627
Other program costs	-	580,116	219	193,300	773,635
	-	34,841,963	751,135	1,036,261	36,629,359
<b>Operating costs</b>					
Salaries and other supplements	2,285,408	-	-	-	2,285,408
Community relations	72,896	-	-	-	72,896
Travel and per diems	92,006	-	-	-	92,006
Supplies	83,570	-	-	-	83,570
Conferences and seminars	56,118	-	-	-	56,118
University services	93,973	-	-	-	93,973
Postage and printing	155,742	-	-	-	155,742
Books and journals	8,424	-	-	-	8,424
Building repair and maintenance	206,645	-	-	-	206,645
Service and independent contractors	371,892	-	-	-	371,892
Licenses, taxes, and assessments	1,329	-	-	-	1,329
Insurance	85,617	-	-	-	85,617
Depreciation	573	-	-	-	573
Other operating costs	89,614	-	-	-	89,614
	3,603,807	-	-	-	3,603,807
<b>Fundraising costs</b>					
Salaries and other supplements	-	-	-	2,134,825	2,134,825
Community relations	-	-	-	458,361	458,361
Travel and per diems	-	-	-	142,729	142,729
Supplies	-	-	-	67,187	67,187
Conferences and seminars	-	-	-	50,138	50,138
University services	-	-	-	12,479	12,479
Postage and printing	-	-	-	146,239	146,239
Books and journals	-	-	-	2,719	2,719
Building repair and maintenance	-	-	-	2,559	2,559
Service and independent contractors	-	-	-	802,367	802,367
Depreciation	-	-	-	300	300
Alumni Association financial support	-	-	-	400,000	400,000
Other operating costs	-	-	-	5,038	5,038
	-	-	-	4,224,941	4,224,941
<b>Other</b>					
Provision for uncollectible pledges	3,205	618,073	17,972	(123,380)	515,870
Total	\$ 3,607,012	\$ 35,460,036	\$ 769,107	\$ 5,137,822	\$ 44,973,977

See accompanying notes.

# University of South Florida Foundation, Inc.

## Notes to Financial Statements

June 30, 2010 and 2009

### 1. Summary of Significant Accounting Policies

#### Organization

The University of South Florida Foundation, Inc. (the Foundation) serves as the official legal conduit for the acceptance, investment, and distribution of private gifts in support of the activities and programs of the University of South Florida (the University or USF), which includes the colleges, campuses, health, athletics, and other appropriate University-related units.

#### Basis of Presentation

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting and are prepared under the guidance of Accounting Standards Codification No. 958-205 (ASC 958-205), *Presentation of Financial Statements*.

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

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

## University of South Florida Foundation, Inc.

### Notes to Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

Expenses are reported as decreases in unrestricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are released from restrictions to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

#### **Contributions, Gifts, and Bequests**

In accordance with Accounting Standards Codification No. 958 (ASC 958), *Not-for-Profit Entities*, the Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

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

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

#### **Cash and Cash Equivalents**

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

#### **Pooled Investments**

The Foundation has created two pools for the investment of funds on a consolidated basis. The endowment pool employs a long-term investment strategy ideal for the perpetual nature of endowments. The operating pool was created to provide liquidity and be a source of funds to meet planned or anticipated expenses for current operations. Investments are carried at fair value based on published quotations from the national exchanges or over-the-counter market, except for alternative investments, which are discussed further in Note 4.

# University of South Florida Foundation, Inc.

## Notes to Financial Statements (continued)

### **1. Summary of Significant Accounting Policies (continued)**

Gifts of investments are recorded at their fair value (based upon quotations or appraisals) at date of gift. Except for investments that are not readily marketable or are held separately for specific reasons, all gifts of investments are liquidated and invested in accordance with the donor's intent.

Gifts that are invested in the endowment pool are assigned units of participation in the pool based upon their market value on the date of gift and the most recently determined unit market value for the existing units of participation. Subsequent allocations of annual income of the endowment pool are based upon the number of units of participation. Distributions are based upon the spending policy approved by the Foundation Board (the Board) and follow the total return concept of utilizing both income and realized gain. The market value of the units of participation is calculated monthly.

Investment income (including interest and dividends and realized and unrealized gains and losses) is reflected in the statements of activities and changes in net assets. Purchases and sales of investments are recorded on a trade-date basis. The cost of investments sold is determined using the specific-identification method.

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

The administrative fee rate on funds invested in the operating pool consists of all earnings generated on those funds. Annually, the Board evaluates historical and projected returns to determine the appropriate administrative fees. See Note 5 for further discussion of the administrative fee assessed on the endowment pool.

### **Contributions Receivable**

Contributions receivable, less an allowance for uncollectible accounts, are reported at net present value using a risk-free interest rate appropriate for the expected terms of the promise to give. The rates applied for the years ended June 30, 2010 and 2009, were 0.9% and 1.5%, respectively.

## University of South Florida Foundation, Inc.

### Notes to Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Books and Art Objects**

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

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

##### **Land, Buildings, and Equipment**

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

The Foundation depreciates buildings and equipment on a straight-line basis over their estimated useful lives. Useful lives range from 3 to 20 years for equipment and 30 years for buildings.

##### **Impairment of Long-Lived Assets**

The Foundation evaluates the recoverability of its land, buildings, and equipment whenever adverse events or changes in the business climate indicate that the expected undiscounted future cash flows from the related asset may be less than previously anticipated. If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount would be reduced to the present value of its expected future cash flows and an impairment loss would be recognized. No indicators of impairment existed at June 30, 2010 or 2009.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Income Taxes**

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

The Foundation adopted the provisions of the Accounting Standards Codification No. 740-10-25 (ASC 750-10-25), *Accounting for Uncertainty in Income Taxes*, effective July 1, 2007. ASC 740-10-25 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740-10-25 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Foundation determined that during the years ended June 30, 2010 and 2009, the impact of ASC 740-10-25 did not have a material effect on its financial position, activities, or cash flows.

**Use of Estimates**

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

**Contributed Services**

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

**Reclassifications**

Certain amounts in the financial statements at June 30, 2009, have been reclassified to conform to the current-year presentation. These reclassifications had no effect on net assets as previously reported.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**2. Contributions Receivable, Net**

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

	<b>June 30</b>	
	<b>2010</b>	<b>2009</b>
In one year or less	<b>\$ 10,356,005</b>	\$ 14,475,698
Between one year and five years	<b>16,683,614</b>	11,882,561
Thereafter	<b>20,748,241</b>	15,771,345
	<b>47,787,860</b>	42,129,604
Less present value discount	<b>(1,508,920)</b>	(1,882,933)
Less allowance for uncollectible contributions	<b>(4,204,810)</b>	(5,408,473)
	<b>\$ 42,074,130</b>	\$ 34,838,198

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

	<b>June 30</b>	
	<b>2010</b>	<b>2009</b>
Permanently restricted	<b>\$ 20,951,756</b>	\$ 15,653,111
Temporarily restricted	<b>21,120,673</b>	19,183,894
Unrestricted	<b>1,701</b>	1,193
	<b>\$ 42,074,130</b>	\$ 34,838,198

The Foundation participates in the State of Florida Major Gifts Challenge Grant program. State matching funds receivable are accrued as contributions receivable when a donor commitment is fulfilled and the Florida Department of Education acknowledges the contribution to be eligible for state match with an assigned priority number.

During the 2009 legislative session, Florida lawmakers passed legislative action that requires each university to notify all donors of private funds of a substantial delay in the availability of state matching funds for the program. A discount has been applied to the state match receivable during the years ended June 30, 2010 and 2009, as no appropriation was made by the legislature for USF projects eligible to receive matching funds.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**2. Contributions Receivable, Net (continued)**

Included in the receivables above for the State of Florida matching gift program is \$17,367,931 and \$12,945,220, net of discounts of \$1,006,962 and \$1,342,283 for the years ended June 30, 2010 and 2009, respectively.

**3. Pooled Investments**

Operating and endowment pooled investments are carried at fair value and consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Operating investment pool:		
Money market funds	\$ 27,584,490	\$ 31,635,565
Fixed income securities	52,181,334	33,690,790
Total operating investment pool	<u>79,765,824</u>	<u>65,326,355</u>
Endowment investment pool:		
Money market funds	1,328,201	1,260,900
Fixed income securities	64,658,100	60,338,228
Stock investments	193,939,164	183,273,090
Partnership investments	53,307,320	42,265,713
Total endowment investment pool	<u>313,232,785</u>	<u>287,137,931</u>
Total pooled investments	<u>\$ 392,998,609</u>	<u>\$ 352,464,286</u>

Investment earnings (losses) consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Interest and dividends, net	\$ 8,672,047	\$ 8,748,772
Interest and dividends of limited partnerships, net	920,662	226,057
Net realized gains (losses) and net changes in limited partnerships	4,652,514	(7,154,516)
Net realized gains (losses) and net changes in fair value of investments	<u>30,336,352</u>	<u>(68,351,252)</u>
	<u>\$ 44,581,575</u>	<u>\$ (66,530,939)</u>

Investment expenses for the year ended June 30, 2010 and 2009, of approximately \$1,482,000 and \$1,370,000, respectively, have been netted against interest and dividends.



University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**3. Pooled Investments (continued)**

Cost and fair value information for the Foundation's various investment pools at June 30 is summarized as follows:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Operating investment pool	\$ 76,951,725	\$ 79,765,824	\$ 65,031,825	\$ 65,326,355
Endowment investment pool	333,812,734	313,232,785	337,638,517	287,137,931
	<u>\$410,764,459</u>	<u>\$392,998,609</u>	<u>\$402,670,342</u>	<u>\$352,464,286</u>

**4. Fair Value**

Accounting Standards Codification No. 820 (ASC 820), *Fair Value Measurement and Disclosure*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market for the asset or liability. The definition focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price).

To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs into three broad levels.

Level 1: Inputs are quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included with Level 1 that are observable for the asset and liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be developed based on the best information available in the circumstances.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**4. Fair Value (continued)**

The following tables present the assets and liabilities carried at fair value on the statements of financial position for the years ended June 30, 2010 and 2009, by the ASC 820 valuation hierarchy (as described above). These levels are assigned based on the accounting unit the Foundation is invested in, not the makeup of the underlying instruments:

Description	Market value	Fair Value Measurement at June 30, 2010 Using		
		Level 1	Level 2	Level 3
Operating investment pool				
Money market funds	\$ 27,584,490	\$ –	\$ 27,584,490	\$ –
Fixed income securities	52,181,334	–	52,181,334	–
Total operating pool	79,765,824	–	79,765,824	–
Endowment investment pool				
Money market funds	1,328,201	541,738	786,463	–
Fixed income securities	64,658,100	–	64,658,100	–
Stock investments	193,939,164	62,903,629	131,035,535	–
Partnership investments	53,307,320	–	21,443,824	31,863,496
Total endowment pool	313,232,785	63,445,367	217,923,922	31,863,496
Remainder interest trusts				
Money market funds	217,779	–	217,779	–
Fixed income securities	1,106,463	–	1,106,463	–
Stock investments	381,257	–	381,257	–
Total remainder interest trusts	1,705,499	–	1,705,499	–
Funds held in trust by others				
Money market funds	522,433	–	–	522,433
Fixed income securities	3,357,601	–	–	3,357,601
Stock investments	3,968,028	–	–	3,968,028
Total fund held in trust by others	7,848,062	–	–	7,848,062
Contributions receivable, net	42,074,130	–	–	42,074,130
Interest rate swap	(645,826)	–	(645,826)	–

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**4. Fair Value (continued)**

Description	Market value	Fair Value Measurement at June 30, 2010 Using		
		Level 1	Level 2	Level 3
Operating investment pool				
Money market funds	\$ 31,635,565	\$ –	\$ 31,635,565	\$ –
Fixed income securities	33,690,790	–	33,690,790	–
Total operating pool	65,326,355	–	65,326,355	–
Endowment investment pool				
Money market funds	1,260,901	449,892	811,009	–
Fixed income securities	60,338,228	–	60,338,228	–
Stock investments	183,273,089	41,833,219	141,439,870	–
Partnership investments	42,265,713	–	16,124,273	26,141,440
Total endowment pool	287,137,931	42,283,111	218,713,380	26,141,440
Remainder interest trusts				
Money market funds	432,441	–	432,441	–
Fixed income securities	815,158	–	815,158	–
Stock investments	360,329	–	360,329	–
Total remainder interest trusts	1,607,928	–	1,607,928	–
Funds held in trust by others				
Money market funds	991,235	–	–	991,235
Fixed income securities	2,936,313	–	–	2,936,313
Stock investments	3,506,212	–	–	3,506,212
Total fund held in trust by others	7,433,760	–	–	7,433,760
Contributions receivable, net	34,838,198	–	–	34,838,198
Interest rate swap	(648,219)	–	(648,219)	–

# University of South Florida Foundation, Inc.

## Notes to Financial Statements (continued)

### 4. Fair Value (continued)

ASC 820 requires the Foundation to provide additional disclosures for financial instruments designated as level 3, including a reconciliation of beginning and ending balances, separately for each major category of assets and liabilities. Included in the level 3 category are investments without readily determinable values. These investments consist of funds of funds, investments in private equity companies, and partnerships, which are included with pooled investments in the statements of financial position. The fair value of the Foundation's interest in these limited partnerships is based on capital account balances reported by the underlying partnerships, which is subject to management review and adjustment. These capital account balances reflect the fair value of the Foundation's investments. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

Also included in level 3 are funds held in trust for others. This is made up of beneficial interests in perpetual trusts and charitable remainder trusts. The unit of account, in accordance with Accounting Standards Codification No. 958-605 (ASC 958-605), *Transfers of Assets to a NPO or Charitable Trust that Raises or Holds Contributions for Others*, is the beneficial interest in the cash flows generated by the trust. The Foundation determines this value as measured by the fair value of the assets contributed to the trusts. For charitable remainder trusts the income approach is utilized, and the trust assets are discounted to present value using a risk free rate. This fair valuation is performed on an annual basis.

The last category of assets included in level 3 is contributions receivable. Contributions receivable consist of unconditional multiyear promises to give. The Foundation measures the fair value of the unconditional promises to give using the income approach. This approach uses the present value of the future cash flows, discounted using a risk-free rate. This fair valuation is performed on an annual basis.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**4. Fair Value (continued)**

Changes in the fair value of the Foundation's level 3 assets consist of the following at June 30:

	<u>Investments</u>	<u>Funds Held in Trust</u>	<u>Contributions</u>
<b>2010</b>			
Beginning assets at fair value	\$ 26,141,440	\$ 7,433,760	\$ 34,838,198
Purchase/proceeds of investments	3,468,432	252,202	-
Net investment (loss) income	(571,049)	160	-
Net unrealized/realized gain on investments	2,824,673	369,067	-
Net change in contribution receivable	-	-	7,609,945
Change in discount used	-	(207,127)	(374,013)
Ending assets at fair value	<u>\$31,863,496</u>	<u>\$7,848,062</u>	<u>\$ 42,074,130</u>
<b>2009</b>			
Beginning assets at fair value	\$ 27,642,350	\$ 8,652,538	\$ 30,210,064
Purchase/proceeds of investments	5,187,088	52,588	-
Net investment (loss) income	(559,048)	-	-
Net unrealized/realized gain on investments	(6,128,950)	(1,908,520)	-
Net change in contribution receivable	-	-	4,687,270
Change in discount used	-	637,154	(59,136)
Ending assets at fair value	<u>\$ 26,141,440</u>	<u>\$ 7,433,760</u>	<u>\$ 34,838,198</u>

All net unrealized/realized losses on investments, net investment income, and changes in discount used in the table above are reflected in the accompanying statements of activities and changes in net assets.

**5. Endowment Investment Pool**

Accounting Standards Codification No. 958-205 (ASC 958-205), *Reporting Endowment Funds*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The Foundation's endowment is subject to the State of Florida Uniform Management of Institutional Funds Act (FUMIFA) as enacted in 2003. The following disclosures are made as required by ASC 958-205.

## University of South Florida Foundation, Inc.

### Notes to Financial Statements (continued)

#### **5. Endowment Investment Pool (continued)**

The Foundation endowment consists of approximately 900 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds held on behalf of the University's Direct Support Organizations (DSO) to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

FUMIFA requires the Board to use reasonable care, skill, and caution as exercised by a prudent investor, in considering the investment management and expenditures of endowment funds. In accordance with FUMIFA, the Board may expend so much of an endowment fund as the Board determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the long-term purchasing power of the endowment fund.

In accordance with FUMIFA, the Foundation considers the following factors in making a determination to distribute or accumulate donor-restricted funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation and the University
7. The investment policies of the Foundation

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by FUMIFA.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Under this policy, as approved by the Foundation Board, the endowment assets are invested in a manner that is intended to

## University of South Florida Foundation, Inc.

### Notes to Financial Statements (continued)

#### **5. Endowment Investment Pool (continued)**

produce a real return, net of inflation and investment management costs that is greater than the rate of inflation, measured by the Consumer Price Index, plus 5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objective within prudent risk constraints.

The Foundation has a spending policy with two components governing the distributions from the endowment: the administrative fee and the dividend payout. In establishing this policy, the Foundation considered the long-term expected return on its endowment.

Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

The dividend payout rate on endowment invested amounts for years ended June 30, 2010 and 2009, was 4.0% and 4.6%, respectively. Annually, the Foundation Board evaluates historical performance, projected returns, and the needs of the University to determine the appropriate dividend payout rate. Dividends are calculated monthly and distributed quarterly to all funds invested in the endowment pool based on the five-year average market value of the endowment pool as of December 31 of the preceding fiscal year in which distribution is planned. During the years ended June 30, 2010 and 2009, the Foundation distributed approximately \$15,421,000 and \$17,551,000, respectively, in endowment dividends. The dividends are made available to support the activities and programs of the University, its DSOs and component units and are expended in accordance with donor-imposed restrictions.

The Foundation charged a 2% administrative fee on endowment invested amounts for the years ended June 30, 2010 and 2009. Annually the Foundation Board evaluates historical performance and projected returns to determine the appropriate administrative fee. During the years ended June 30, 2010 and 2009, the Foundation collected approximately \$7,097,000 and \$6,957,000, respectively, in administrative fees. These fees cover the cost of business office operating

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**5. Endowment Investment Pool (continued)**

expenses that include: accounting, auditing, taxes, and other related business expenses; support for fundraising operations; management of the endowment; and assistance with other University needs.

At June 30, 2010, the endowment net asset composition by type of fund consisted of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted funds	\$ (22,946,764)	\$ 40,936,080	\$ 283,074,960	\$ 301,064,276
Amounts due to third party beneficiaries	<u>12,168,509</u>	-	-	<u>12,168,509</u>
Total funds	<u>\$ (10,778,255)</u>	<u>\$ 40,936,080</u>	<u>\$ 283,074,960</u>	<u>\$ 313,232,785</u>

Changes in endowment net assets for the year ended June 30, 2010, consisted of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ (21,831,451)	\$ 29,004,410	\$ 279,964,972	\$ 287,137,931
Investment return:				
Investment income	154,194	8,498,563	-	8,652,757
Net appreciation (realized and unrealized)	<u>8,456,296</u>	<u>23,230,134</u>	-	<u>31,686,430</u>
Total investment gain	8,610,490	31,728,697	-	40,339,187
Contributions and other additions	2,442,706	2,721,150	3,109,988	8,273,844
Administrative fee/dividends distributed for expenditure	-	<u>(22,518,177)</u>	-	<u>(22,518,177)</u>
Endowment net assets, end of year	<u>\$ (10,778,255)</u>	<u>\$ 40,936,080</u>	<u>\$ 283,074,960</u>	<u>\$ 313,232,785</u>



University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**5. Endowment Investment Pool (continued)**

At June 30, 2009, the endowment net asset composition by type of fund consisted of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted funds	\$ (30,929,054)	\$ 29,004,410	\$ 279,964,972	\$ 278,040,328
Amounts due to third-party beneficiaries	9,097,603	-	-	9,097,603
Total funds	<u>\$ (21,831,451)</u>	<u>\$ 29,004,410</u>	<u>\$ 279,964,972</u>	<u>\$ 287,137,931</u>

Changes in endowment net assets for the year ended June 30, 2009, consisted of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 20,348,084	\$ 89,115,692	\$270,063,872	\$379,527,648
Investment return:				
Investment income	318,092	8,289,181	-	8,607,273
Net depreciation (realized and unrealized)	<u>(37,520,678)</u>	<u>(44,618,551)</u>	-	<u>(82,139,229)</u>
Total investment loss	(37,202,586)	(36,329,370)	-	(73,531,956)
Contributions and other additions	1,304,508	725,874	9,901,100	11,931,482
Administrative fee/dividends distributed for expenditure	-	(24,507,786)	-	(24,507,786)
Other:				
DSO liquidation	<u>(6,281,457)</u>	-	-	<u>(6,281,457)</u>
Endowment net assets, end of year	<u>\$ (21,831,451)</u>	<u>\$ 29,004,410</u>	<u>\$ 279,964,972</u>	<u>\$ 287,137,931</u>

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**5. Endowment Investment Pool (continued)**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level of the original gift. Accumulated losses of this nature, which are reported in unrestricted net assets, were approximately \$22,947,000 and \$30,929,000 as of June 30, 2010 and 2009, respectively. These accumulated losses resulted from unfavorable market fluctuations and continued distribution of dividends in accordance with the Foundation's spending policy as deemed prudent by the Foundation Board.

**6. Remainder Interest Trusts**

The Foundation is the beneficiary of several irrevocable, charitable trusts, and charitable gift annuities. These assets have been donated to the Foundation for investment, in return for annuity payments to the donor(s) or their designees. The Foundation is obligated under a life income trust agreement to pay a 10.5% annuity to certain unrelated beneficiaries. The Foundation is also obligated under 19 charitable gift annuity agreements to pay annuities with rates ranging from 5.0% to 9.5% to third-party beneficiaries. These annuity obligations are calculated based on actuarial assumptions, using IRS tables, at their present value each year. Upon satisfaction of the terms of each trust, the trust assets shall be transferred to the Foundation per the donor's direction. The following table represents fair value and cost of invested assets at June 30:

	<b>2010</b>		<b>2009</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Remainder interest trusts	<b>\$ 1,645,303</b>	<b>\$ 1,705,499</b>	\$ 1,583,385	\$ 1,607,928

The Foundation has recorded annuities and life income trusts payable on the accompanying statements of financial position equal to the present value of the total anticipated future payments to the beneficiaries of these trusts and annuities of \$766,490 and \$717,335 as of June 30, 2010 and 2009, respectively.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**7. Funds Held in Trust by Others**

The Foundation is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Foundation. Trusts are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the Foundation is notified of its existence. The net present value of these funds at June 30 is as follows:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Permanent trusts	\$ 4,582,912	\$ 4,504,110	\$ 4,853,693	\$ 4,459,480
Charitable trusts, net	3,240,525	3,343,952	2,929,683	2,974,280
Funds held in trust by others	<u>\$ 7,823,437</u>	<u>\$ 7,848,062</u>	<u>\$ 7,783,376</u>	<u>\$ 7,433,760</u>

**8. Books and Art Objects**

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

	2010	2009
Contemporary Art Museum permanent donated art collection	\$ 2,336,835	\$ 2,226,985
Other books and art objects	217,000	217,000
	<u>\$ 2,553,835</u>	<u>\$ 2,443,985</u>

**9. Land, Buildings, and Equipment**

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

	2010	2009
Land and buildings	\$ 1,021,861	\$ 1,021,861
Equipment	285,146	285,146
Other	139,818	139,818
	<u>1,446,825</u>	<u>1,446,825</u>
Less accumulated depreciation	(882,480)	(859,982)
	<u>\$ 564,345</u>	<u>\$ 586,843</u>

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**10. Due to/from the University of South Florida**

Due from the University of South Florida consists of the following at June 30:

	<b>2010</b>	<b>2009</b>
Interest rate swap (see Note 13)	\$ <b>645,826</b>	\$ 648,219
Research Vessel loan	–	2,113,119
Convenience accounts	<b>150,664</b>	207,375
	<b>\$ 796,490</b>	\$ 2,968,713

In August 2008, the Foundation entered into a Memorandum of Understanding (MOU) with USF in which the Foundation granted USF a loan in an amount not to exceed \$2,100,000. The loan proceeds were used to purchase a research vessel for the College of Marine Sciences and was paid in full in October 2009. Interest collected was \$31,000 and is included under investment income on the statements of activities and changes in net assets.

The Foundation has convenience accounts held at the University in which money is transferred to pay the Foundation’s payroll and other expenses incurred due to the University. At the end of fiscal year 2010 and 2009, these accounts held a positive balance as funds in excess of actual costs were transferred during the year.

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

	<b>2010</b>	<b>2009</b>
Courtelis Facilities Matching Gift program	<b>\$17,283,450</b>	\$12,863,860

In accordance with the State of Florida Courtelis Facilities Matching Gift Program, all eligible private funds raised may be matched dollar for dollar by the State. The Courtelis Facilities Matching Gift program liability represents private money raised to support the construction of the USF Health Major Renovation/Remodeling/Addition, USF Health North Clinic, USF Joint Military Science Leadership Center, USF Byrd Alzheimer’s Institute, USF Health Nursing Expansion, and the USF Polytechnic campus.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**10. Due to/from the University of South Florida (continued)**

The Foundation certifies to the University and the State on December 31 of each year the amount of private money that has been raised and that is eligible to be matched under the program. During each annual legislative session, the legislature may appropriate funding or veto a project for matching. Once the appropriation has been made by the legislature the Foundation is obligated to transfer the funds to the University to receive the match. During fiscal years 2010 and 2009 no appropriation was made by the legislature for USF projects eligible to receive matching funds from the program. During the 2009 legislative session, Florida lawmakers passed legislative action that requires each university to notify all donors of private funds of a substantial delay in the availability of state matching funds for the program. The 2009 legislative action also includes a provision to permit expenditure of private gift dollars on approved projects prior to the appropriation of Courtelis Facilities Matching funds. Therefore, due to the permissible expenditure of private dollars under the statute and specific donor restrictions, a liability was recorded in the current and previous years.

**11. Amounts Due to Third-Party Beneficiaries**

The Foundation provides investment management of funds to the University, its DSOs and Component Units to provide benefits from economies of scale, active professional oversight, and broad diversification over many asset classes. Organizations participating in this program may be invested in the Foundation's operating and/or endowment investment pools.

The Foundation is holding investments on behalf of the following organizations at June 30:

	<u>2010</u>	<u>2009</u>
USF Research Foundation, Inc.	\$ 7,921,774	\$ 6,963,140
USF Alumni Association, Inc.	3,049,655	2,610,857
USF deferred compensation arrangements	1,718,828	1,347,334
Moffitt Cancer Center	438	460
	<u>\$ 12,690,695</u>	<u>\$ 10,921,791</u>

**12. Certificates of Participation Payable (Nonrecourse Transaction)**

In March 2003, the Foundation approved the issuance of \$13,200,000 of Foundation Certificates of Participation Series 2003A (Certificates) to finance the construction of an athletic training facility (the Facility). The issuance of these Certificates represents an undivided interest in the

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**12. Certificates of Participation Payable (Nonrecourse Transaction) (continued)**

right of the Foundation to receive concession funds and student fees supporting the Facility by the Board of Regents (or its legal successor) under a Master Operating Lease. The holders of the Certificates have no recourse against Foundation assets beyond revenue derived under the Master Operating Lease. The Certificates bear interest at a variable rate determined by the remarketing agent in accordance with the remarketing agreement between the Foundation and the remarketing agent and the trust indenture dated March 1, 2003. The Certificates are payable upon presentation by the certificate holders. The Foundation, as lessor, has assigned its interest in the Master Operating Lease to a third-party trustee in accordance with the Trust Indenture.

The Board of Regents (or its legal successor), as lessee, has pledged the concession funds and student fees related to the Facility to the payment of principal and interest on the Certificates for the project.

The Facility, along with an interest in the real property on which it is located, is subject to a master ground lease agreement dated March 1, 2003, between the Board of Regents (or its legal successor) for and on behalf of the University, as lessor, and the Foundation, as lessee, pursuant to which the Foundation acquires an interest in the Facility and a master operating lease between the Foundation, as lessor, and the Board of Regents (or its legal successor) for and on behalf of the University, as lessee, pursuant to which the Board of Regents (or its legal successor) for and on behalf of the University takes possession of the Facility. Upon termination of the ground lease, the Facility will be surrendered by the Foundation to the Board of Regents (or its legal successor) and the Foundation shall thereafter have no further interest in the Facility. Under the terms of the master operating lease for the Facility, the Board of Regents (or its legal successor) is obligated to pay concession funds and student fees to the Foundation equal to the principal and interest payments that become due on the Certificates, as well as an amount equal to all expenses associated with the ownership, operation, and rental of the Facility. The Foundation was in compliance with all covenants for the years ended June 30, 2010 and 2009.

**Recording of Leases Receivable and Obligations Under Lease Agreements**

The Foundation has recorded a lease receivable related to the Facility at June 30, 2010, as follows:

Capitalized lease receivable	\$ 12,549,705
Less deferred interest income receivable	(2,034,705)
Capitalized lease receivable, net	<u>\$ 10,515,000</u>

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**12. Certificates of Participation Payable (Nonrecourse Transaction) (continued)**

The following is a schedule by years of future minimum lease payments payable under the lease agreement, assuming a 3.343% annual rate of interest, together with the present value of minimum lease payments as of June 30, 2010. This rate is fixed through the terms of the interest rate swap agreement as discussed in Note 13.

Year Ended June 30:

2011	\$ 951,320
2012	960,426
2013	928,780
2014	899,369
2015	912,077
Thereafter	<u>7,897,733</u>
Total minimum lease payments	12,549,705
Less amounts representing interest	<u>(2,034,705)</u>
Present value of future minimum lease payments	<u>\$ 10,515,000</u>

**13. Interest Rate Swap Agreement**

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

The fair value of the swap agreement is the estimated amount the Foundation would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the counterparties. The fair value of the Foundation's swap agreement at June 30, 2010, is (\$645,826), and is included as a liability in the accompanying statements of financial position. The decrease in the fair value of the swap agreement was \$2,393 for the period ended June 30, 2010, and is included as a component of program service expenses in the statements of activities and changes in net assets.

## University of South Florida Foundation, Inc.

### Notes to Financial Statements (continued)

#### **13. Interest Rate Swap Agreement (continued)**

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

#### **14. Concentrations of Credit Risk**

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

Contributions receivable includes the state matching receivable from the State of Florida for the University Major Gifts Challenge Grant program. This program has not been funded by the state during 2009 and 2010. The state matching receivable related to this program represents approximately 41% and 37% of the contributions receivable balances at June 30, 2010 and 2009, respectively. The State of Florida continues to assign priority numbers to eligible matching gifts; therefore, the Foundation continues to recognize the receivable.

The Foundation has invested in investments without readily determinable values that comprise 6.9% of total assets at June 30, 2010. These investments contain underlying funds that include limited partnerships. These investments entail liquidity risks to the extent that they are difficult to sell or convert to cash quickly at favorable prices. The investment risk of these investments without readily determinable values with respect to each underlying investment will be limited to the capital committed to it by the Foundation.

#### **15. Commitments**

##### **Research Foundation**

During the year ended June 30, 1999, the Foundation's Board entered into an agreement for the Foundation to act as loan guarantor on the balance of a loan issued from a bank to the USF Research Foundation in the amount of \$13,300,000. The USF Research Foundation has borrowed a total of \$11,500,000 as of June 30, 2010, and the proceeds have been used for the acquisition of the land and development rights for a research park. Proceeds from leasing of the



## University of South Florida Foundation, Inc.

### Notes to Financial Statements (continued)

#### **15. Commitments (continued)**

research park buildings are committed to satisfy the debt service obligations. The balance of the loan at June 30, 2010, is \$8,200,000. There has been no default on the loan or on any loan covenants related to the loan.

#### **Letter of Credit**

The Foundation has entered into a letter of credit agreement with a financial institution to cover the full amount of the outstanding principal balance of the Certificates of Participation Payable in the event of a demand for payment by the certificate holders. Under the terms of the related reimbursement agreement with the financial institution, the Foundation is required to repay any amounts drawn on the letter of credit agreement immediately. As of June 30, 2010, there are no withdrawals outstanding on the letter of credit agreement.

Pursuant to the indemnification agreement with the University related to the Certificates, the University has agreed to indemnify and will hold the Foundation harmless in regards to all related obligations associated with the Certificates.

#### **16. Related-Party Transactions**

The Foundation considers the University, its DSOs, and members of the Foundation Board to be related parties for purposes of the financial statements. The DSOs include the USF Alumni Association, Inc., University Medical Services Association (UMSA), USF Medical Services Support Corporation, USF Health Professions Conferencing Corporation (HPCC), USF Research Foundation, Inc., USF Financing Corporation, Inc., USF Property Corporation, Inc., and Sun Dome, Inc (Sun Dome).

Program services expenses on the statements of activities and changes in net assets include amounts transferred to related parties or amounts disbursed directly to third parties to benefit the University or its DSOs. These expenses include salaries, scholarships, and other program related expenses. Also, included in these expenses was property donated to or purchased by the Foundation, and transferred to the University for asset management and record keeping purposes.

Employees of the University perform operating functions for the Foundation. The University tracks, administers, and reports all payroll and fringe benefit costs. The Foundation transfers funds to the University for these costs, estimating the salary costs of individuals devoting effort to the Foundation, and applies a 28% fringe benefit rate in addition to the base salary costs. The

## University of South Florida Foundation, Inc.

### Notes to Financial Statements (continued)

#### **16. Related-Party Transactions (continued)**

amount funded by the Foundation to the University was approximately \$3,730,000 and \$4,420,000 for the years ended June 30, 2010 and 2009, respectively. These amounts are shown on the statements of functional expenses as salaries and other supplements for fundraising and operating costs.

The University recognized and reported a compensated absence liability of \$840,000 and \$647,000 for University employees performing functions for the Foundation for the years ended June 30, 2010 and 2009, respectively. These amounts are not included in the Foundation's statements of activities and changes in net assets.

The USF Foundation may provide the use of unrestricted funds to the University to allow for more flexible spending than the funding sources available to the University. The amount made available to the University in unrestricted Foundation funds was approximately \$5,405,000 and \$4,965,000 for the years ended June 30, 2010 and 2009, respectively. Expenditures of the funds made available are included in program services on the statements of functional expenses. The University may provide equal amounts of State funding to the Foundation to be used for salaries of University employees that perform functions for the benefit of both the University and the Foundation. These amounts are not included in the Foundation's statements of activities and changes in net assets.

SunTrust Bank serves as the Foundation's banking institution for the Foundation's treasury services. A member of the Foundation's Board is an Executive Vice President for SunTrust Bank.

Portions of the Foundation's contributions receivable balance (approximately \$8,923,000 and \$8,468,000 at June 30, 2010 and 2009, respectively) are commitments made to the Foundation by several members of the Foundation Board. In addition, the Foundation received approximately \$399,000 and \$270,000 during the years ended June 30, 2010 and 2009, respectively, in cash and in-kind contributions from various members of the Foundation's Board.

The Foundation has interfund loans to University colleges, units, and regional campuses that are collateralized by assets within the Foundation. Foundation interfund loans totaled approximately \$4,397,000 and \$5,982,000 at June 30, 2010 and 2009, respectively, and net to zero on the statements of financial position.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**16. Related-Party Transactions (continued)**

The Foundation paid approximately \$400,000 in financial support for the benefit of the USF Alumni Association for the years ended June 30, 2010 and 2009. This amount is included in fundraising costs in the statements of activities and changes in net assets.

The Foundation was the recipient of a donation of an aircraft during the year ended June 30, 2010. This aircraft was transferred to the Sun Dome at the appraised value of \$945,000 for management oversight responsibility and is included in transfers to related organizations within program costs in the statements of activities and changes in net assets.

The University transferred \$3,400,182 and \$3,445,352 in financial support to the Foundation to support the USF comprehensive fundraising campaign for the years ended June 30, 2010 and 2009, respectively. This amount is included in other revenue on the statements of activities and changes in net assets. The University has committed an additional \$7,060,932 in financial support to the Foundation to support the USF comprehensive fundraising campaign, which will be received through June 30, 2012.

HPCC made gifts to the Foundation totaling \$51,500 and \$110,175 for the years ended June 30, 2010 and 2009, respectively. UMSA made gifts to the Foundation totaling \$25,559 and \$300 for the years ended June 30, 2010 and 2009, respectively. These amounts are included in contributions on the statements of activities and changes in net assets.

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**17. Restricted Net Assets**

Temporarily and permanently restricted net assets at June 30, 2010 and 2009 were classified by donor restrictions as shown below.

<b>Year Ended June 30, 2010</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
College program support	\$ 48,207,888	\$ 62,846,581
Scholarships and fellowships	17,682,510	78,504,827
Endowed chairs and professorships	35,043,812	124,185,263
Research	8,094,572	30,192,112
Trusts	2,751,791	864,493
Facility improvement and equipment	27,132,046	4,535,699
Receivable allowances	(1,339,179)	(4,376,955)
Total	<u>\$137,573,440</u>	<u>\$296,752,020</u>

<b>Year Ended June 30, 2009</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
College program support	\$ 39,119,242	\$ 60,541,979
Scholarships and fellowships	15,350,553	75,115,873
Endowed chairs and professorships	32,446,497	124,566,375
Research	7,417,310	28,325,445
Trusts	3,503,721	4,491,069
Facility improvement and equipment	20,446,174	860,915
Receivable allowances	(1,081,836)	(6,214,272)
Total	<u>\$117,201,661</u>	<u>\$287,687,384</u>

University of South Florida Foundation, Inc.

Notes to Financial Statements (continued)

**17. Restricted Net Assets (continued)**

Net assets released from restrictions were classified by donor restrictions by the following at June 30:

	<u>2010</u>	<u>2009</u>
College program support	\$ 19,509,383	\$ 17,553,828
Scholarships and fellowships	4,456,250	4,506,043
Endowed chairs and professorships	6,908,840	5,655,988
Research	1,276,113	1,281,985
Facility improvement and equipment	5,869,800	1,885,777
Transfers between restrictions	—	(697,168)
Total	<u>\$ 38,020,386</u>	<u>\$ 30,186,453</u>

**18. Subsequent Events**

Accounting Standards Codification No. 855 (ASC 855), *Subsequent Events*, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. ASC 855 defines two types of subsequent events. The effects of events or transactions that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing financial statements, are recognized in the financial statement. The effects of events that provide evidence about conditions that did not exist at the balance sheet but arose after that date are not recognized in the financial statements. The Foundation reviewed subsequent events through October 28, 2010. No events were required to be disclosed in accordance with this standard.

# Government Auditing Standards Report

Report of Independent Certified Public Accountants on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements  
Performed in Accordance with *Government Auditing Standards*

Management and the Board of Trustees  
University of South Florida Foundation, Inc.

We have audited the financial statements of the University of South Florida Foundation, Inc. (the Foundation) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal control over financial reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### **Compliance and other matters**

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Ernst + Young LLP*

October 28, 2010



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