CONSOLIDATED FINANCIAL STATEMENTS

University of South Florida Foundation, Inc.

Years Ended June 30, 2018 and 2017

With Reports of Independent Auditor

Consolidated Financial Statements

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Contents

Report of Independent Auditor

The Board of Directors of
University of South Florida Foundation, Inc. and subsidiary
Tampa, Florida

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the University of South Florida Foundation, Inc. and subsidiary (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 15, 2018 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Tampa, Florida
October 15, 2018

University of South Florida Foundation, Inc.

Consolidated Statements of Financial Position

June 30, 2018 and 2017

	June 30	
	2018	**2017**
Assets		
Cash and cash equivalents	**$ 1,025,848**	$ 803,271
Operating investment pool	**82,841,277**	79,281,004
Accrued investment receivable	**233,402**	119,084
Contributions receivable, net	**45,972,156**	44,859,410
Other receivables, net	**286,461**	92,553
Endowment investment pool	**513,001,388**	471,893,729
Remainder interest trusts	**1,717,750**	1,726,727
Funds held in trust by others	**25,175,641**	21,971,790
Books and art objects	**3,787,810**	3,538,859
Real estate held for resale	**12,450,000**	–
Land, buildings, and equipment, net	**10,003,413**	9,732,783
Total assets	**$ 696,495,146**	$ 634,019,210
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 937,311**	$ 1,443,613
Mortgage payable	**5,085,584**	5,447,403
Annuities and life income trusts payable	**614,722**	696,830
Amounts due to third-party beneficiaries	**33,225,731**	29,663,892
Due to the University of South Florida, net	**3,665,956**	1,640,817
Total liabilities	**43,529,304**	38,892,555
Net assets:		
Unrestricted net assets	**13,998,771**	13,520,185
Temporarily restricted net assets	**273,834,662**	224,788,997
Permanently restricted net assets	**365,132,409**	356,817,473
Total net assets	**652,965,842**	595,126,655
Total liabilities and net assets	**$ 696,495,146**	$ 634,019,210

See Accompanying Notes.

University of South Florida Foundation, Inc.

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions, gifts, and bequests	$ 14,452	$ 47,214,133	$ 7,996,360	$ 55,224,945
Special events and fund-raising activities	166,714	938,356	–	1,105,070
Investment income, net	11,483,252	40,870,323	263,672	52,617,247
University support and other	12,995,812	1,673,205	–	14,669,017
Net assets released from restrictions	39,947,704	(39,947,704)	–	–
Total revenues	64,607,934	50,748,313	8,260,032	123,616,279
Expenses:				
Program services	46,763,659	–	–	46,763,659
Fundraising costs	9,841,659	–	–	9,841,659
Operating costs	7,524,030	–	–	7,524,030
Provision for uncollectible pledges	–	690,613	217,989	908,602
Total expenses	64,129,348	690,613	217,989	65,037,950
Change in net assets before change in value of split-interest agreements	478,586	50,057,700	8,042,043	58,578,329
Change in value of split-interest agreements	–	(1,012,035)	272,893	(739,142)
Change in net assets	478,586	49,045,665	8,314,936	57,839,187
Net assets, beginning of year	13,520,185	224,788,997	356,817,473	595,126,655
Net assets, end of year	$ 13,998,771	$ 273,834,662	$ 365,132,409	$ 652,965,842

University of South Florida Foundation, Inc.

Consolidated Statement of Activities and Changes in Net Assets (continued)

Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions, gifts, and bequests	$ 109,893	$ 29,867,198	$ 6,688,698	$ 36,665,789
Special events and fund-raising activities	64,249	2,137,375	–	2,201,624
Investment (loss) income, net	13,104,839	50,513,553	324,144	63,942,536
University support and other	16,154,915	48,086	–	16,203,001
Net assets released from restrictions	40,139,281	(40,139,281)	–	–
Total revenues	69,573,177	42,426,931	7,012,842	119,012,950
Expenses:				
Program services	46,076,283	–	–	46,076,283
Fundraising costs	9,968,163	–	–	9,968,163
Operating costs	7,329,478	–	–	7,329,478
Provision for uncollectible pledges	–	399,045	163,084	562,129
Total expenses	63,373,924	399,045	163,084	63,936,053
Change in net assets before change in value of split-interest agreements	6,199,253	42,027,886	6,849,758	55,076,897
Change in value of split-interest agreements	–	(547,946)	392,511	(155,435)
Change in net assets	6,199,253	41,479,940	7,242,269	54,921,462
Net assets, beginning of year	7,320,932	183,309,057	349,575,204	540,205,193
Net assets, end of year	$ 13,520,185	$ 224,788,997	$ 356,817,473	$ 595,126,655

University of South Florida Foundation, Inc.

Consolidated Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	June 30	
	2018	**2017**
Operating activities		
Change in net assets	**$ 57,839,187**	$ 54,921,462
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in the provision for losses and discounts on contributions receivable	**(345,290)**	1,739,968
Contributions restricted for long-term investment	**(9,557,966)**	(7,717,706)
Loss on sale of land held for resale	**–**	56,959
Depreciation	**187,651**	60,231
Investment gains, net	**(46,033,783)**	(59,477,137)
Change in value of split-interest agreements	**739,142**	155,435
Gift of land held for resale	**(12,450,000)**	(122,000)
Gift of books and art objects	**(248,951)**	(161,047)
Changes in assets and liabilities:		
Contributions receivable	**(767,456)**	1,267,430
Accrued investment receivables and other receivables, net	**(217,091)**	937,821
Accounts payable and accrued expenses	**(506,302)**	(290,948)
Annuities and life income trusts payable	**10,395**	(895)
Amounts due to third-party beneficiaries	**325,748**	(542,899)
Due to the University of South Florida, net	**1,555,068**	(5,523,501)
Net cash used in operating activities	**(9,469,648)**	(14,696,827)
Investing activities		
Proceeds from sales of real estate held for resale	**–**	590,041
Acquisition of buildings and improvements	**(458,282)**	(2,935,927)
Interest and dividends reinvested	**(6,583,464)**	(4,465,398)
Purchases of pooled investments	**(190,048,683)**	(186,746,597)
Proceeds from sales and maturities of pooled investments	**197,116,436**	199,628,979
Repayment of loans to the University of South Florida	**470,071**	132,833
Net cash provided by investing activities	**496,078**	6,203,931
Financing activities		
Principal payments on mortgage payable	**(361,819)**	(352,455)
Proceeds from contributions restricted for long-term investment	**9,557,966**	7,717,706
Net cash provided by financing activities	**9,196,147**	7,365,251
Change in cash and cash equivalents	**222,577**	(1,127,645)
Cash and cash equivalents, beginning of year	**803,271**	1,930,916
Cash and cash equivalents, end of year	**$ 1,025,848**	$ 803,271
Supplemental disclosures of cash flow information		
Cash payments for interest on mortgage payable	**$ 138,662**	$ 148,026

University of South Florida Foundation, Inc.

Consolidated Statement of Functional Expenses

Year Ended June 30, 2018

	USF Tampa Campus	USF St. Petersburg Campus	USF Sarasota-Manatee Campus	USF Health	Total Program Services	Fundraising Costs	Operating Costs	Total Expenses
Program services:								
Salaries and other supplements	$ 13,514,095	$ 492,225	$ 150,575	$ 7,693,195	$ 21,850,090	$ 8,661,777	$ 5,839,175	$ 36,351,042
Community relations	898,781	30,125	11,505	93,649	1,034,060	398,423	-	1,432,483
Travel and per diems	531,972	47,778	12,445	240,519	832,714	86,566	25,110	944,390
Meals and Entertainment	1,054,736	109,923	50,687	305,322	1,520,668	227,096	158,520	1,906,284
Supplies and Equipment	563,551	48,009	13,886	354,743	980,189	68,706	66,100	1,114,995
Scholarships and awards	6,983,139	368,665	243,923	2,126,950	9,722,677	-	-	9,722,677
Conferences and seminars	148,442	6,447	5,216	166,663	326,768	38,305	30,402	395,475
University services	3,814,089	20,952	-	505,033	4,340,074	21,414	94,372	4,455,860
Postage, Printing and Publication	407,908	8,402	6,547	44,732	467,589	190,066	36,490	694,145
Books and journals	330,598	94,247	373	73,061	498,279	-	-	498,279
Building repair and maintenance	274,844	6,574	-	47,925	329,343	4,063	12,817	346,223
Service and independent contractors	3,675,223	134,578	23,042	353,586	4,186,429	136,029	901,211	5,223,669
Insurance, licenses, taxes, and assessments	30,256	-	-	10,616	40,872	-	268,761	309,633
Depreciation	-	89,717	-	21,101	110,818	-	76,833	187,651
Interest Expense	-	138,662	-	-	138,662	-	-	138,662
Other costs	321,003	3,406	3,480	56,538	384,427	9,214	14,239	407,880
	32,548,637	1,599,710	521,679	12,093,633	46,763,659	9,841,659	7,524,030	64,129,348
Other expenses:								
Provision for uncollectible pledges	853,269	15,095	2,060	38,178	908,602	-	-	908,602
Total	$ 33,401,906	$ 1,614,805	$ 523,739	$12,131,811	$ 47,672,261	$ 9,841,659	$ 7,524,030	$ 65,037,950

See Accompanying Notes.

University of South Florida Foundation, Inc.

Consolidated Statement of Functional Expenses (continued)

Year Ended June 30, 2017

	USF Tampa Campus	USF St. Petersburg Campus	USF Sarasota-Manatee Campus	USF Health	Total Program Services	Fundraising Costs	Operating Costs	Total Expenses
Program services:								
Salaries and other supplements	$ 13,385,815	$ 274,869	$ 172,552	$ 6,952,648	$ 20,785,884	$ 8,069,309	$ 5,909,262	$ 34,764,455
Community relations	334,683	33,205	20,595	103,241	491,724	275,929	-	767,653
Travel and per diems	560,223	50,400	14,070	267,854	892,547	97,901	22,306	1,012,754
Meals and Entertainment	1,118,449	37,852	61,660	237,814	1,455,775	433,699	34,655	1,924,129
Supplies and Equipment	883,011	62,047	20,178	375,455	1,340,691	79,101	46,144	1,465,936
Scholarships and awards	5,873,714	397,984	321,632	1,736,918	8,330,248	-	-	8,330,248
Conferences and seminars	189,460	22,956	2,888	210,134	425,438	27,107	11,592	464,137
University services	3,149,520	229,744	287,745	623,931	4,290,940	2,604	182,400	4,475,944
Postage, Printing and Publication	446,749	10,174	993	117,569	575,485	221,877	27,529	824,891
Books and journals	389,456	11,160	3,697	35,321	439,634	2,818	655	443,107
Building repair and maintenance	1,777,284	804	9,452	78,158	1,865,698	5,056	45,856	1,916,610
Service and independent contractors	3,793,002	158,585	62,253	269,786	4,283,626	164,421	745,660	5,193,707
Insurance, licenses, taxes, and assessments	72,676	-	-	60,284	132,960	-	161,172	294,132
Depreciation	21,101	39,130	-	-	60,231	-	-	60,231
Alumni Association financial support	-	-	-	-	-	581,767	-	581,767
Interest Expense	-	148,026	-	-	148,026	-	-	148,026
Other costs	437,574	1,430	2,448	115,924	557,376	6,574	142,247	706,197
	32,432,717	1,478,366	980,163	11,185,037	46,076,283	9,968,163	7,329,478	63,373,924
Other expenses:								
Provision for uncollectible pledges	317,330	2,153	30,486	212,160	562,129	-	-	562,129
Total	$ 32,750,047	$ 1,480,519	$ 1,010,649	$ 11,397,197	$ 46,638,412	$ 9,968,163	$ 7,329,478	$ 63,936,053

See Accompanying Notes.

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 System (the University or USF), which includes the colleges, campuses, health, athletics, and other appropriate University-related units.

The Foundation formed the USF Real Estate Foundation, L.L.C. (the LLC) to hold contributed real estate (Note 9). The Foundation is the sole member and manager of the LLC. The LLC is a single member limited liability corporation and is structured as a disregarded entity for U.S. Federal, state and local income tax purposes. Accordingly, no provision for income taxes is made in the consolidated financial statements.

Principles of Consolidation – The accompanying consolidated financial statements include those of the Foundation and the LLC (collectively referred to hereafter as the "Foundation"). The organizations have been consolidated as required in accordance with accounting principles generally accepted in the United States of America (GAAP). All significant inter-entity balances and transactions have been eliminated in consolidation.

Change in basis of accounting: The Florida legislature passed and the governor signed into law Chapter 2018-004, Laws of Florida, a provision that changed Section 1004.28, Florida Statutes, which addresses university direct support organizations. With this change, the University Board of Trustees will have to approve all direct support organization board members. Under current accounting guidance, a key factor in determining whether a direct support organization should report under the accounting and financial reporting standards of the Financial Accounting Standards Board (FASB), the current basis of accounting, versus the accounting and financial reporting of the Governmental Accounting Standards Board (GASB) is board control. With the change in the Florida statute, the University has control of the board of the direct support organization and the FASB reporting model is no longer appropriate. The Foundation will convert to the GASB reporting model for fiscal year ending June 30, 2019. Management is still evaluating the impact of this change. However, at this time, it is believed that in adopting the GASB reporting model, it will be necessary to restate beginning net assets. Management believes that the areas most impacted will be endowment pledges and split interest agreements.

Basis of Presentation

The accompanying consolidated 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*.

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated 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's Board of Directors, including quasi-endowments, or may otherwise be limited by contractual agreements with outside parties.

Expenses are reported as decreases in unrestricted net assets with the exception of the provision for uncollectible pledges which is captured in the classification of the associated pledge. 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 consolidated 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 accepts financial and nonfinancial assets from donors on behalf of USF to which it is financially interrelated and recognizes the fair value of the assets received as contributions. Contributions are recognized as revenues in the period received and are recorded at their estimated fair value on the date of contribution. The Foundation reports gifts of financial or nonfinancial assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. For the years ended June 30, 2018 and 2017, the Foundation recognized $13,080,880 and $1,273,824, respectively, in in-kind contributions on behalf of USF within contributions, gifts and bequests on the accompanying consolidated statements of activities and changes in net assets. These amounts are also reflected as program service expenses on the accompanying consolidated statements of activities and changes in net assets for the transfer of the in-kind contributions to the University or maintained on the consolidated statement of financial position as real estate held for resale when appropriate.

1. Summary of Significant Accounting Policies (continued)

Contributions, Gifts, and Bequests (continued)

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 restrictions on the consolidated statements of activities and changes in net assets 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 consolidated 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 except for balances included in the pooled investments.

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, or by utilizing net asset value as a practical expedient, except for alternative investments, which are discussed further in Note 4.

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.

1. Summary of Significant Accounting Policies (continued)

Pooled Investments (continued)

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's Board and follow the total return concept of utilizing both income and realized and unrealized gains. 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 accompanying consolidated 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 Foundation's 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

In accordance with Accounting Standards Codification No. 820, *Fair Value Measurements*, contributions receivable, less an allowance for uncollectible accounts, are reported at fair value determined using the discounted present value of expected cash flows. The allowance is made for uncollectible contributions receivable based upon the Foundation's analysis of past collection experience and other judgmental factors. The allowance captures the risk premium to bring the contributions receivable balance to a risk-adjusted expected cash flow. The discount rate applied to the risk-adjusted cash flow is based on U.S. Treasury yields appropriate for the expected terms of the promise to give. For the year ended June 30, 2018, discount rates ranging from 2.33% to 2.81% were used. For the year ended June 30, 2017, discount rates ranging from 1.24% to 2.31% were used.

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 Foundation). Gains or losses on the deaccession of books and art objects are classified in the accompanying consolidated 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.

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 consolidated statements of activities and changes in net assets. The Foundation transfers gifts and purchased property to the University for capitalization, asset management, and insurance purposes. These transfers are reflected on the consolidated statements of functional expenses as University services and gift-in-kind transfers under program services expenses.

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 to 40 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 the carrying value. 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 such impairment was recorded for the years ending June 30, 2018 and 2017.

1. Summary of Significant Accounting Policies (continued)

Real Estate Held for Resale

Real estate held for resale consists of property donated to the Foundation. The donated property is carried at the lower of carrying amount or fair value less costs to sell and is not depreciated. Any impairment loss on initial classification and subsequent measurement is analyzed for recognition as an expense. There is no impairment loss recognized during the year ended June 30, 2018 (see Note 18).

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 follows the provisions of the Accounting Standards Codification No. 740-10-25 (ASC 740-10-25), *Accounting for Uncertainty in Income Taxes*. ASC 740-10-25 prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the consolidated 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, 2018 and 2017, 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.

2. Contributions Receivable, Net

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

	June 30	
	2018	**2017**
In one year or less	**$ 21,443,628**	$ 17,748,028
2020	**3,963,916**	6,448,712
2021	**2,168,651**	3,097,511
2022	**8,219,423**	1,625,663
2023	**7,654,793**	7,775,575
Thereafter	**14,891,311**	20,878,776
	58,341,722	57,574,265
Less discount	**(2,577,881)**	(2,308,955)
Less allowance for uncollectible contributions	**(9,791,685)**	(10,405,900)
	$ 45,972,156	$ 44,859,410

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

	June 30	
	2018	**2017**
Permanently restricted	**$ 32,492,331**	$ 34,053,935
Temporarily restricted	**13,479,825**	10,805,475
	$ 45,972,156	$ 44,859,410

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.

The Major Gifts Challenge Grant Program has been temporarily suspended for donations received on or after June 30, 2011. Existing eligible donations received on or before June 29, 2011 remain eligible for future matching funds when appropriated by the State. The program may be restarted by the state after $200 million of the backlog for the state match programs has been funded.

2. Contributions Receivable, Net (continued)

Included in the contribution receivable balance above for the State of Florida Major Gifts Challenge Grant Program is $23,973,746 and $24,133,574, net of discounts of $1,746,078 and $1,723,307 for the years ended June 30, 2018 and 2017, respectively. The discount rate applied to the state match receivable is based on U.S. Treasury yields appropriate for the projected date funding will be received from the State.

3. Pooled Investments

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

	2018	2017
Operating investment pool:		
Money market funds	**$ 10,791,267**	$ 9,156,530
Fixed income securities	**72,050,010**	70,124,474
Total operating investment pool	**82,841,277**	79,281,004
Endowment investment pool:		
Money market funds	**9,633,088**	2,941,543
Fixed income securities	**64,474,582**	64,240,327
Stock investments	**339,969,310**	321,460,654
Partnership investments	**98,924,408**	83,251,205
Total endowment investment pool	**513,001,388**	471,893,729
Total pooled investments	**$ 595,842,665**	$ 551,174,733

Investment income consists of the following at June 30:

	2018	2017
Interest and dividends, net	**$ 5,112,847**	$ 4,266,340
Interest and dividends of limited partnerships, net	**1,470,617**	199,059
Net realized gains and net changes in limited partnerships	**8,083,102**	7,766,577
Net realized gains and net changes in fair value of investments	**37,950,681**	51,710,560
Total investment income, net	**$ 52,617,247**	$ 63,942,536

3. Pooled Investments (continued)

Investment expenses of approximately $3,031,000 and $3,288,000 have been netted against interest and dividends for the years ended June 30, 2018 and 2017, respectively.

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

	2018		2017	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Operating investment pool	**$ 82,160,516**	**$ 82,841,277**	$ 77,329,373	$ 79,281,004
Endowment investment pool	**363,884,420**	**513,001,388**	344,373,831	471,893,729
	$ 446,044,936	**$ 595,842,665**	$ 421,703,204	$ 551,174,733

4. Fair Value

Accounting Standards Codification No. 820 (ASC 820), *Fair Value Measurement*, establishes a framework for measuring fair value through a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Assets that are calculated at Net Asset Value (NAV) per share are not required to be categorized by level.

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 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.

4. Fair Value (continued)

The following valuation techniques and inputs were used to estimate the fair value of assets and liabilities carried at fair value on the consolidated statements of financial position. There have been no changes to these techniques and inputs during the years ended June 30, 2018 and 2017.

Money market funds: The fair value of these short-term investments is classified as Level 1 based on quoted prices in an active market.

Fixed income: Included in the Level 1 category are fixed income investments. Level 1 fixed income investments consist of mutual funds invested in corporate and government bonds valued on quoted prices in an active market. Other fixed income investments consist of corporate, government, and mortgage bonds structured as a commingled fund. The fair value has been estimated using the NAV per share of the fund at year-end based on the current market value of each investment and reinvested investment income as a practical expedient. The NAV is excluded from the valuation hierarchy.

Stock investments: Included in both the Level 1 category are domestic and international equities. Level 1 stock investments are valued at quoted prices in an active market. Other stock investments are structured as commingled funds, and fair value has been estimated using the NAV per share of the fund at year-end as a practical expedient. The NAV is excluded from the valuation hierarchy. Their fair value is based on observable inputs, which include market prices for similar assets in the active market.

Partnership investments: Included within endowment pooled investments in the accompanying statements of financial position are a high yield bond fund, funds of funds, investments in private equity companies, and partnerships that do not have readily determinable values. 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. This fair value is determined using the NAV per percentage of ownership as a practical expedient. The NAV is excluded from the valuation hierarchy. 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.

4. Fair Value (continued)

Remainder interest trusts: Remainder interest trusts consist of several irrevocable charitable trusts and charitable gift annuities externally managed and held in the name of the Foundation. These trusts are included in the Level 2 category. The trust assets are invested in mutual funds, equity, and fixed income securities. Their fair value is based on observable inputs, which include market prices for similar assets in the active market.

Funds held in trust by others: Funds held in trust by others are included in the Level 3 category and are 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 the IRS discount rate. The Foundation has assessed the interest rate used and no additional risk premium is added to this rate. This fair valuation is performed on an annual basis. See Note 7 for additional disclosures regarding the rates used to determine the fair value of these assets.

Contributions receivable: Contributions receivable consist of unconditional multi-year promises to give and are included in the Level 3 category. As permitted by ASC 825, the Foundation has elected to measure contributions receivable at fair value. Management has elected the fair value option for these items because it more accurately reflects their financial position. The Foundation measures the fair value of the unconditional promises to give under the expected present value technique. This approach uses the present value of the risk-adjusted expected future cash flows, discounted using U.S. Treasury yields appropriate for the expected terms of the promise to give. This fair valuation is performed on an annual basis.

Real estate held for resale: Real estate held for resale consists of donated assets, which are subsequently marketed and sold and are included in the Level 3 category. The Foundation determines the fair value principally from or corroborated by both observable and unobservable market data by correlation or other means.

4. Fair Value (continued)

The following tables present the assets measured at fair value on a recurring basis on the consolidated statements of financial position for the years ended June 30, 2018 and 2017, by the ASC 820 valuation hierarchy (as described above). Investments calculated using a Net Asset Value (NAV) per share are listed separately for reconciliation to the balances on the consolidated statement of financial position. Except for contributions receivable, the following levels are assigned based on the accounting unit the Foundation is invested in, not the makeup of the underlying instruments:

		Fair Value Measurement at June 30, 2018			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**	**NAV**
Operating investment pool:					
Money market funds	**$ 10,791,267**	**$ 10,791,267**	**$ –**	**$ –**	**$ –**
Fixed income	**72,050,010**	**38,410,353**		**–**	**33,639,657**
Total operating pool	**$ 82,841,277**	**$ 49,201,620**	**$ –**	**$ –**	**$ 33,639,657**
Endowment investment pool:					
Money market funds	**$ 9,633,088**	**$ 9,633,088**	**$ –**	**$ –**	**$ –**
Fixed income	**64,474,582**	**19,364,090**	**–**	**–**	**45,110,492**
Stock investments:					
Domestic equities	**188,861,214**	**87,250,425**	**–**	**–**	**101,610,789**
International equities	**129,108,048**	**29,281,628**	**–**	**–**	**99,826,420**
Real asset equities	**22,000,048**	**22,000,048**	**–**	**–**	**–**
Partnership investments:					
Private equity	**37,926,069**	**–**	**–**	**–**	**37,926,069**
Fixed income	**29,073,871**	**–**	**–**	**–**	**29,073,871**
Real asset	**31,924,468**	**–**	**–**	**–**	**31,924,468**
Total endowment pool	**$ 513,001,388**	**$ 167,529,279**	**$ –**	**$ –**	**$ 345,472,109**
Remainder interest trusts:					
Money market funds	**$ 40,130**	**$ –**	**$ 40,130**	**$ –**	**$ –**
Fixed income	**1,272,945**	**–**	**1,272,945**	**–**	**–**
Stock investments	**404,675**	**–**	**404,675**	**–**	**–**
Total remainder interest trusts	**$ 1,717,750**	**$ –**	**$ 1,717,750**	**$ –**	**$ –**
Funds held in trust by others:					
Money market funds	**$ 1,285,354**	**$ –**	**$ –**	**$ 1,285,354**	**$ –**
Fixed income	**12,123,754**	**–**	**–**	**12,123,754**	**–**
Stock investments	**11,766,533**	**–**	**–**	**11,766,533**	**–**
Total funds held in trust by others	**$ 25,175,641**	**$ –**	**$ –**	**$ 25,175,641**	**$ –**
Contributions receivable, net	**$ 45,972,156**	**$ –**	**$ –**	**$ 45,972,156**	**$ –**
Real estate held for resale	**$ 12,450,000**	**$ –**	**$ –**	**$ 12,450,000**	**$ –**

4. Fair Value (continued)

		Fair Value Measurement at June 30, 2017			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**	**NAV**
Operating investment pool:					
Money market funds	$ 9,156,530	$ 9,156,530	$ –	$ –	$ –
Fixed income	70,124,474	36,608,536	–	–	33,515,938
Total operating pool	$ 79,281,004	$ 45,765,066	$ –	$ –	$ 33,515,938
Endowment investment pool:					
Money market funds	$ 2,941,542	$ 2,941,542	$ –	$ –	$ –
Fixed income	64,240,328	19,295,950	–	–	44,944,378
Stock investments:					
Domestic equities	172,183,910	70,186,243	–	–	101,997,667
International equities	128,324,580	30,625,914	–	–	97,698,666
Real asset equities	20,952,164	20,952,164	–	–	–
Partnership investments:					
Private equity	38,725,320	–	–	–	38,725,320
Fixed income	24,388,551	–	–	–	24,388,551
Real asset	20,137,334	–	–	–	20,137,334
Total endowment pool	$ 471,893,729	$ 144,001,813	$ –	$ –	$ 327,891,916
Remainder interest trusts:					
Money market funds	$ 39,350	$ –	$ 39,350	$ –	$ –
Fixed income	1,349,732	–	1,349,732	–	–
Stock investments	337,645	–	337,645	–	–
Total remainder interest trusts	$ 1,726,727	$ –	$ 1,726,727	$ –	$ –
Funds held in trust by others:					
Money market funds	$ 1,375,458	$ –	$ –	$ 1,375,458	$ –
Fixed income	10,761,420	–	–	10,761,420	–
Stock investments	9,834,912	–	–	9,834,912	–
Total funds held in trust by others	$ 21,971,790	$ –	$ –	$ 21,971,790	$ –
Contributions receivable, net	$ 44,859,410	$ –	$ –	$ 44,859,410	$ –

The Foundation measures amounts due to third-party beneficiaries at fair value on a recurring basis. This liability is recorded based on the third parties' interest in invested assets managed by the Foundation. The fair value of these underlying assets are held in the operating and endowment investment pools presented in the above tables for the years ended June 30, 2018 and 2017. See Note 12 for additional information.

4. Fair Value (continued)

The following table provides 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 at June 30:

2018	**Funds Held in Trust by Others**	**Contributions Receivable**	**Real Estate held for Resale**
Beginning assets, at fair value	**$ 21,971,790**	**$ 44,859,410**	**$ –**
Purchases of investments	**5,816,800**	**–**	**–**
Proceeds of investments	**(2,252,339)**	**–**	
Net investment (loss) income	**127,565**	**–**	**–**
Net unrealized/realized gain (loss) on investments	**(488,175)**	**–**	**–**
Contribution of property			**12,450,000**
Net change in contribution receivable	**–**	**843,820**	**–**
Change in fair value included in contributions revenue	**–**	**268,926**	**–**
Ending assets, at fair value	**$ 25,175,641**	**$ 45,972,156**	**$ 12,450,000**

2017	**Funds Held in Trust by Others**	**Contributions Receivable**	**Real Estate held for Resale**
Beginning assets, at fair value	$ 21,124,841	$ 47,866,808	$ 525,000
Purchases of investments	2,736,264	–	–
Proceeds of investments	(2,395,130)	–	–
Net investment (loss) income	243,749	–	–
Net unrealized/realized gain (loss) on investments	262,066	–	–
Contribution of property	–	–	122,000
Proceeds from sale of property	–	–	(590,041)
Loss on sale of property	–	–	(56,959)
Net change in contribution receivable	–	(3,604,495)	–
Change in fair value included in contributions revenue	–	597,097	–
Ending assets, at fair value	$ 21,971,790	$ 44,859,410	$ –

4. Fair Value (continued)

All net unrealized/realized gains/losses on investments and net investment income/loss in the table above are included in the investment income (loss), net line item in the accompanying consolidated statements of activities and changes in net assets. The change in fair value related to the contributions receivable in the table above is included in the contributions line item in the accompanying consolidated statements of activities and changes in net assets. There have been no transfers into or out of the Level 3 category and there have been no significant transfers between the Level 1 and 2 categories.

The following table discloses the nature and risks of investments that do not have a readily determinable fair value at June 30:

2018	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Fixed income[a]	**$ 78,750,149**	$ –	Weekly	0-7 days
Stock investments[b]:				
Domestic equities	**101,610,789**	–	Daily/Monthly	2-30 days
International equities	**99,826,420**	–	Daily/Monthly	5-30 days
Partnership investments				
Private equity[c]	**37,926,069**	**10,924,486**	NA	NA
Fixed income[d]	**29,073,871**	**17,012,633**	Monthly	3-5 days
Real asset[c]	**31,924,468**	**9,110,073**	NA	NA
Total	**$ 379,111,766**	**$ 37,047,192**		

2017	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Fixed income[a]	$ 78,460,316	$ –	Weekly	0-7 days
Stock investments[b]:				
Domestic equities	101,997,667	–	Daily/Monthly	2-30 days
International equities	97,698,666	–	Daily/Monthly	5-30 days
Partnership investments				
Private equity[c]	38,725,320	13,975,179	NA	NA
Fixed income[d]	24,388,551	17,360,339	Monthly	3-5 days
Real asset[c]	20,137,334	2,118,826	NA	NA
Total	$ 361,407,854	$ 33,454,344		

4. Fair Value (continued)

[a] This category includes investments in fixed income securities through a commingled fund structure. The investment manager's emphasis is on spread sectors, in particular putable corporate bonds and commercial mortgage-backed securities. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.

[b] This category included investments in domestic and international equities through a commingled fund structure. The investment objective of these funds is to provide long-term total return in excess of their respective benchmarks. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.

[c] This category consists of private capital partnerships in fund of fund underlying managers. Investments include private equity, real estate, and real assets that are not subject to redemption. The Foundation instead receives distributions through the liquidation of the underlying assets of the investees. The estimated remaining life on these funds range from 1 to 11 years.

[d] This category consists of a high-yield bond portfolio in a commingled fund in which the manager holds publicly traded corporate bonds with some rated below investment grade. The fair value of the investments in this category has been estimated using the net asset value per share of the investments.

5. Endowment Investment Pool

Accounting Standards Codification No. 958-205-45 (ASC 958-205-45), *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. During 2011, the State of Florida adopted UPMIFA. The effective date of the legislation enacting Florida UPMIFA was July 1, 2012. There were no changes to the Foundation's financial position as a result of the legislation. The following disclosures are made as required by ASC 958-205-45.

The Foundation endowment consists of approximately 1,200 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.

UPMIFA requires the Foundation's 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 UPMIFA, the Foundations Board may expend so much of an endowment fund as the Foundation 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.

5. Endowment Investment Pool (continued)

In accordance with UPMIFA, 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 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 UPMIFA.

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 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.

5. Endowment Investment Pool (continued)

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, 2018 and 2017 was 4%. Annually, the Foundation's 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, 2018 and 2017, the Foundation distributed $18,260,412 and $17,056,919, 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, 2018 and 2017. Annually, the Foundation Board evaluates historical performance, projected returns, and operating needs to determine the appropriate administrative fee. During the years ended June 30, 2018 and 2017, the Foundation collected $8,423,080 and $7,939,617, respectively, in administrative fees. These fees cover the cost of business office operating expenses that include: accounting, auditing, taxes, and other related business expenses; support for fund-raising operations; and management of the endowment.

5. Endowment Investment Pool (continued)

At June 30, 2018, the endowment net asset composition by type of fund consisted of the following which includes amounts due to third-party beneficiaries:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ (133,448)	$ 150,936,160	$ 329,717,268	$ 480,519,980
Amounts due to third- party beneficiaries	32,481,408	–	–	32,481,408
Total funds	$ 32,347,960	$ 150,936,160	$ 329,717,268	$ 513,001,388

Changes in endowment net assets, which include amounts due to third-party beneficiaries, for the year ended June 30, 2018, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 28,324,856	$ 125,161,136	$ 318,407,737	$ 471,893,729
Investment return:				
Investment income	(828,122)	6,037,704	–	5,209,582
Net appreciation (realized and unrealized)	3,134,440	46,420,812	–	49,555,252
Total investment gain	2,306,318	52,458,516	–	54,764,834
Contributions and other additions	1,716,786	–	11,309,531	13,026,317
Administrative fee/dividends distributed for expenditure	–	(26,683,492)	–	(26,683,492)
Endowment net assets, end of year	$ 32,347,960	$ 150,936,160	$ 329,717,268	$ 513,001,388

5. Endowment Investment Pool (continued)

The endowment fund components disclosed above as the unrestricted net asset classification of $32,347,960 as of June 30, 2018 include amounts due to third-party beneficiaries and the deficiencies associated with donor-restricted endowment funds. The amounts due to third-party beneficiaries of $32,481,408 as of June 30, 2018 is also recorded as a liability on the consolidated statement of financial position as the Foundation has an obligation to pay these amounts to other organizations (see Note 12). Therefore, these amounts offset in the Foundation's unrestricted net assets. The deficiencies associated with donor-restricted endowment funds are the result of individual situations where the fair value has fallen below the amount of the original gift. Accumulated losses of this nature were $133,448 as of June 30, 2018. 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.

At June 30, 2017, the endowment net asset composition by type of fund consisted of the following, which include amounts due to third-party beneficiaries:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	$ (675,984)	$ 125,161,136	$ 318,407,737	$ 442,892,889
Amounts due to third- party beneficiaries	29,000,840	–	–	29,000,840
Total funds	$ 28,324,856	$ 125,161,136	$ 318,407,737	$ 471,893,729

5. Endowment Investment Pool (continued)

Changes in endowment net assets, which include amounts due to third-party beneficiaries, for the year ended June 30, 2017, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 22,565,062	$ 89,207,920	$ 307,777,258	$ 419,550,240
Investment return:				
Investment income	(818,850)	3,944,641	–	3,125,791
Net appreciation (realized and unrealized)	5,844,121	57,005,112	–	62,849,233
Total investment gain	5,025,271	60,949,753	–	65,975,024
Contributions and other additions	3,528,196	–	10,630,479	14,158,675
Administrative fee/dividends distributed for expenditure	–	(24,996,537)	–	(24,996,537)
Beneficiary distribution	(2,793,673)	–	–	(2,793,673)
Endowment net assets, end of year	$ 28,324,856	$ 125,161,136	$ 318,407,737	$ 471,893,729

The endowment fund components disclosed above as the unrestricted net asset classification of $28,324,856 as of June 30, 2017 include amounts due to third-party beneficiaries and the deficiencies associated with donor-restricted endowment funds. The amounts due to third-party beneficiaries of $29,000,840 as of June 30, 2017 is also recorded as a liability on the consolidated statement of financial position as the Foundation has an obligation to pay these amounts to other organizations (see Note 12). Therefore, these amounts offset in the Foundation’s unrestricted net assets. The deficiencies associated with donor-restricted endowment funds are the result of individual situations where the fair value has fallen below the amount of the original gift. Accumulated losses of this nature were $675,984 as of June 30, 2017. 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. In accordance with Section 627.481 of the Florida Statutes, the charitable gift annuity reserve fund must maintain assets at least equal to the liability on its outstanding annuity agreements, plus 10%. Investment of the gift annuity reserve fund is limited to no more than 50% equities and no more than 10% may be invested in any one stock or fund. The following table represents fair value and cost of invested assets at June 30:

	2018		**2017**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Life income trusts	**$ 499,204**	**$ 576,563**	$ 477,576	$ 547,776
Gift annuity reserve fund	**1,099,138**	**1,141,187**	1,128,020	1,178,951
Remainder interest trusts	**$ 1,598,342**	**$ 1,717,750**	$ 1,605,596	$ 1,726,727

The Foundation is obligated under 23 charitable gift annuity agreements to pay annuities with rates ranging from 1.8% to 9.4% 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 Foundation has recorded annuities and life income trusts payable on the accompanying consolidated statements of financial position equal to the present value of the total anticipated future payments to the beneficiaries of these trusts and annuities of $614,722 and $696,830 as of June 30, 2018 and 2017, respectively.

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, discounted using the IRS discount rate, when the irrevocable trust is established or the Foundation is notified of its existence. For the years ended June 30, 2018 and 2017, rates of 3.4% and 2.4%, respectively, were applied. The fair value of these funds at June 30 is as follows:

	2018		2017	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Permanent trusts	**$ 10,026,391**	**$ 11,421,186**	$ 9,601,162	$ 10,884,178
Charitable trusts, net	**12,840,093**	**13,754,455**	10,342,620	11,087,612
Funds held in trust by others	**$ 22,866,484**	**$ 25,175,641**	$ 19,943,782	$ 21,971,790

8. Books and Art Objects

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

	2018	**2017**
Contemporary Art Museum permanent donated art collection	**$ 2,901,537**	$ 2,754,686
Other books and art objects	**886,273**	784,173
	$ 3,787,810	$ 3,538,859

9. Real Estate Held for Resale

The Foundation receives real estate gifts, which are subsequently marketed and sold, with proceeds going to support the University. The carrying value for real estate held for resale was $12,450,000 as of June 30, 2018. The Foundation did not hold real estate held for resale as of June 30, 2017.

10. Land, Buildings, and Equipment, Net

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

	2018	2017
Land	**$ 6,620,414**	$ 6,620,414
Buildings and improvements	**4,221,715**	3,763,434
Equipment	**11,417**	11,417
Other	**139,818**	139,818
	10,993,364	10,535,083
Less accumulated depreciation	**(989,951)**	(802,300)
	$ 10,003,413	$ 9,732,783

On March 31, 2015, the Foundation acquired a parcel of land located in St. Petersburg, Florida, adjacent to the USF St. Petersburg campus. The Foundation has entered into an operating lease agreement with the University for the use of the property by USF St. Petersburg. See Note 16 for information on the operating lease. The Foundation financed this property with a mortgage obligation. See Note 13 for information regarding the associated mortgage payable. Certain costs associated with the development and improvement of this property are incurred directly by the University. These amounts are transferred to the Foundation for capitalization. Transfers received for building and improvements were $458,282 and $2,935,927 as of June 30, 2018 and 2017, respectively, and are recorded in university support revenue in the accompanying consolidated statements of activities and changes in net assets.

11. Due to the University of South Florida, Net

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

	2018	2017
Public broadcasting radio station loan	**$ –**	$ (470,071)
Supplemental and deferred compensation contracts	**2,258,022**	1,211,764
Convenience accounts and pending transfers	**1,073,249**	564,439
Courtelis Facilities Matching Gift Program	**334,685**	334,685
	$ 3,655,956	$ 1,640,817

During fiscal year 2011, the Foundation entered into a Memorandum of Understanding (MOU) with the University in which the Foundation granted WUSF-FM Public Broadcasting, a division of the University, a loan in an amount not to exceed $1,275,000. The loan proceeds were used for the acquisition of a radio station. Under the terms of the MOU, principal and interest payments shall be paid quarterly over a 10-year period. Interest shall be calculated from the date of the first draw of the loan at a fixed rate equal to 4.00%. Interest collected was $3,194 and $22,151 for the years ended June 30, 2018 and 2017, respectively, and is included under investment gains on the accompanying consolidated statements of activities and changes in net assets. During the year ended June 30, 2018, the University fulfilled all outstanding obligations with the Foundation associated with this loan.

The Foundation has entered into supplemental compensation agreements with certain University employees on behalf of the University. These agreements provide for amounts that would be paid in the event of involuntary termination without cause. The potential maximum amounts under these contracts range from $280,000 to $6,120,000 and may be reduced or eliminated based on a predetermined schedule or compensation earned during employment in addition to reductions for severance paid by USF and compensation from new employment. Based on conditions required in the agreements, the likelihood of these payments occurring is considered remote and will be recognized when due to the University. In addition, some of these agreements provide for deferred compensation amounts that will be earned at a future date or in the event of death, disability, or termination without cause. In some cases, the deferred compensation is earned on a prorated basis in the event of resignation or termination for cause. The amounts recorded within due to University of South Florida on the consolidated statements of financial position to recognize the deferred compensation in accordance with Accounting Standards Codification No. 710 (ASC 710), *Compensation – General* was $2,258,022 and $1,211,764 as of June 30, 2018 and 2017, respectively. The amounts recorded as program services on the consolidated statements of activities and changes in net assets to reflect the expense associated with the liability for deferred compensation was $1,046,258 and $1,211,764 for the years ended June 30, 2018 and 2017, respectively.

11. Due to the University of South Florida, Net (continued)

The University has committed to support the funding of these agreements if there are not sufficient funds available to them in the Foundation at the time of payment. Any payments due under these agreements will be made by the Foundation to the University for them to process for their employees.

The Foundation has convenience accounts held at the University in which money is transferred to pay salaries and reimburse other expenses incurred by the University. The balances of these accounts reflect the difference between actual costs incurred and amounts transferred during the year netted with transfers pending at June 30th.

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 College of The Arts Music Building.

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 2018 and 2017, no appropriation was made by the legislature for the University projects eligible to receive matching funds from the program. The Courtelis Facilities Matching Gift Program has been temporarily suspended for donations received on or after June 30, 2011. Existing eligible donations received on or before June 29, 2011 remain eligible for future matching funds. The program may be restarted after $200 million of the backlog for the state match programs have been funded.

12. 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.

12. Amounts Due to Third-Party Beneficiaries (continued)

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

	2018	2017
USF Research Foundation, Inc.	**$ 25,089,191**	$ 22,505,850
USF Alumni Association, Inc.	**7,474,221**	6,759,411
USF deferred compensation arrangements	**662,319**	398,631
	$ 33,225,731	$ 29,663,892

13. Mortgage Payable

On March 31, 2015, the Foundation financed property adjacent to the USF St. Pete campus with a fully amortizing nonrecourse mortgage of $6,200,000. The mortgage is collateralized by an asset with a carrying value of $6,200,000 (see Note 10) and future improvements made to the property. Payments of $41,707 are due monthly over a 15-year period at a fixed rate of 2.625%.

Aggregate future maturities of the mortgage payable are as follows:

2019	**$ 371,432**
2020	**381,300**
2021	**391,431**
2022	**401,830**
2023	**412,506**
Thereafter	**3,127,085**
	$ 5,085,584

Interest expense of $138,662 and $148,026 is included in program services expenses in the accompanying consolidated statements of activities and changes in net assets for the year ended June 30, 2018 and 2017, respectively.

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.

14. Concentrations of Credit Risk (continued)

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 2018 and 2017. The state matching receivable related to this program represents approximately 52.15% of the contributions receivable balances at June 30, 2018 and 53.80% at June 30, 2017, respectively.

The Foundation has invested in directly in partnership investments without readily determinable values that comprise 14.20% of total assets at June 30, 2018. 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.

The Foundation places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers $250,000 for substantially all depository accounts. The Foundation from time to time may have amounts in excess of the insured limits. The Foundation had cash and cash equivalent balances of $1,016,845 and $784,028 and in excess of these insured limits at June 30, 2018 and 2017, respectively.

15. Commitments

Research Foundation

During the year ended June 30, 2013, the Foundation's Board entered into an agreement for the Foundation to act as loan guarantor on the balance of a note issued from a bank to the USF Research Foundation in the amount of $6,200,000. Proceeds of this note were used to refund the outstanding amount of the Series 1999 bond whose proceeds were used for the acquisition of the land and development rights for a research park. Proceeds from leasing of the research park buildings are committed to satisfy the debt service obligations. In the event of nonpayment by the USF Research Foundation over the 6-year life of the note, the Foundation would be obligated to pay the annual note payment or the entire amount outstanding on the note if the issuer chooses to accelerate payment. The balance of the note at June 30, 2018 is $2,000,000. There has been no default on the note or on any note covenants related to the note as of June 30, 2018.

16. Related Party Transactions

The Foundation considers the University, its DSOs, and members of the Foundation's Board to be related parties for purposes of the consolidated 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 accompanying consolidated 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 recordkeeping purposes.

Employees of the University perform operating functions for the Foundation. The University tracks, administers, and reports all payroll and fringe benefit costs. The University directly funded salaries of approximately $10,194,000 and $10,122,000 for University employees that perform functions for the benefit of both the University and the Foundation for the years ended June 30, 2018 and 2017, respectively. These amounts are included in university support revenue on the consolidated statements of activities and changes in net assets. The Foundation transferred additional payroll and fringe benefit costs to the University of approximately $4,725,000 and $4,292,000 for the years ended June 30, 2018 and 2017, respectively. All these amounts are shown on the consolidated statements of functional expenses as salaries and other supplements for fundraising and operating costs.

The University recognized and reported a compensated absence liability of approximately $1,146,000 and $1,066,000 for University employees performing functions for the Foundation for the years ended June 30, 2018 and 2017, respectively. These amounts are not included in the Foundation's consolidated statements of activities and changes in net assets.

Portions of the Foundation's contributions receivable balance ($909,634 and $4,692,802 at June 30, 2018 and 2017, respectively), are commitments made to the Foundation by several members of the Foundation's Board. In addition, the Foundation received $370,181 and $397,647 during the years ended June 30, 2018 and 2017, respectively, in cash and in-kind contributions from various members of the Foundation's Board.

16. Related Party Transactions (continued)

The Foundation has interfund loans to University colleges, units, and regional campuses that are collateralized by assets within the Foundation. The Foundation interfund loans totaled approximately $4,512,000 and $5,377,000 at June 30, 2018 and 2017, respectively, and net to zero on the accompanying consolidated statements of financial position.

The Foundation executed a noncancellable operating lease with the University as the tenant related to property described in Note 10. The lease agreement requires the university to make monthly lease payments of $43,913 to the Foundation through March 30, 2032. During the year, the Foundation received $526,956 in lease payments from the University, which is included in university support and other revenue in the accompanying consolidated statements of activities and changes in net assets.

Aggregate future minimum lease payments expected to be received are as follows:

2019	**$ 526,956**
2020	**526,956**
2021	**526,956**
2022	**526,956**
2023	**526,956**
Thereafter	**4,610,865**
	$ 7,245,645

The Foundation paid approximately $581,800 in financial support for the benefit of the USF Alumni Association for the year ended June 30, 2017. No financial support payments were made during the year ended June 30, 2018. This amount is included in fund-raising costs in the accompanying consolidated statements of activities and changes in net assets.

The University transferred $2,558,416 in financial support to the Foundation to support the USF comprehensive fund-raising campaign for the years ended June 30, 2018 and 2017. This amount is included in university support and other revenue on the accompanying consolidated statements of activities and changes in net assets.

DSOs have made gifts to the Foundation of approximately $6,800 and $4,400 for the years ended June 30, 2018 and 2017, respectively. These amounts are included in contributions on the accompanying consolidated statements of activities and changes in net assets.

17. Restricted Net Assets

Temporarily and permanently restricted net assets at June 30, 2018 and 2017 were classified by donor restrictions as shown below.

Year Ended June 30, 2018	**Temporarily Restricted**	**Permanently Restricted**
College program support	**$ 100,238,782**	**$ 92,744,350**
Scholarships and fellowships	**49,510,155**	**120,456,689**
Endowed chairs and professorships	**86,210,192**	**125,111,536**
Research	**10,212,601**	**15,766,282**
Trusts	**10,849,747**	**10,296,532**
Facility improvement and equipment	**16,813,185**	**757,020**
Total	**$ 273,834,662**	**$ 365,132,409**

Year Ended June 30, 2017	Temporarily Restricted	Permanently Restricted
College program support	$ 80,689,399	$ 100,555,958
Scholarships and fellowships	40,623,232	108,403,956
Endowed chairs and professorships	71,242,064	119,523,651
Research	9,243,684	17,670,302
Trusts	9,496,506	9,911,239
Facility improvement and equipment	13,494,112	752,367
Total	$ 224,788,997	$ 356,817,473

17. Restricted Net Assets (continued)

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

	2018	2017
College program support	**$ 24,902,669**	$ 24,716,731
Scholarships and fellowships	**7,558,020**	7,266,413
Endowed chairs and professorships	**4,525,630**	4,515,218
Research	**1,323,878**	1,081,694
Facility improvement and equipment	**1,637,507**	2,559,225
Total	**$ 39,947,704**	$ 40,139,281

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 consolidated statement of financial position date but before the consolidated 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 consolidated financial statements, are recognized in the consolidated financial statements; and the effects of events that provide evidence about conditions that did not exist at the consolidated statement of financial position but arose after that date are not recognized in the consolidated financial statements. The Foundation reviewed subsequent events through the date of the consolidated financial statement issuance of October 15, 2018.

In October 2018, the Foundation entered into a purchase and sale agreement on the property held by the USF Real Estate Foundation. The real estate held for resale was recorded with a fair market value of $12,450,000. The contracted amount is for approximately $12,000,000. An impairment charge of $450,000 is not reflected in the balance as of June 30, 2018.

Government Auditing Standards Report

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors of
University of South Florida Foundation, Inc. and subsidiary
Tampa, Florida

We have audited, 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, the consolidated financial statements of the University of South Florida Foundation, Inc. and subsidiary (the "Foundation") (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 15, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's consolidated 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 consolidated 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Tampa, Florida
October 15, 2018