

COMBINED FINANCIAL STATEMENTS

USF Financing Corporation and USF Property Corporation  
Period From March 10, 2005 (Inception) Through June 30, 2005

USF Financing Corporation and  
USF Property Corporation

Combined Financial Statements

Period From March 10, 2005 (Inception) Through June 30, 2005

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## Report of Independent Certified Public Accountants

The Board of Directors  
USF Financing Corporation and  
USF Property Corporation

We have audited the accompanying combined statement of financial position of the USF Financing Corporation and USF Property Corporation (collectively, the Company) as of June 30, 2005, and the related combined statements of activities and changes in net assets and cash flows for the period from March 10, 2005 (inception) through June 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in 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 Company'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 Company'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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Company as of June 30, 2005, and the combined changes in its net assets and its cash flows for the period from March 10, 2005 (inception) through June 30, 2005 in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

October 7, 2005

USF Financing Corporation and  
USF Property Corporation

Combined Statement of Financial Position

June 30, 2005

**Assets**

Cash and cash equivalents	\$ 129,599
Investments	27,949,153
Due from University of South Florida	113,730,027
Deferred charges, net of accumulated amortization of \$6,616	1,929,421
Construction in progress	1,905,511
Total assets	<u><u>\$145,643,711</u></u>

**Liabilities and net assets**

Liabilities:

Accounts payable	755,901
Interest payable	393,689
Interest rate swap liability	2,051,465
Certificates of participation payable	<u>142,442,656</u>
Total liabilities	<u>145,643,711</u>

Net assets:

Unrestricted	—
Total liabilities and net assets	<u><u>\$145,643,711</u></u>

*See accompanying notes.*

USF Financing Corporation and  
USF Property Corporation

Combined Statement of Activities and Changes in Net Assets

For the Period March 10, 2005 (Inception) Through June 30, 2005

Revenues and support:	
University of South Florida Housing System support	\$ 3,644,824
Investment income, net	22,660
Total revenues and support	<u>3,667,484</u>
Program expenses:	
Operation and maintenance expense	1,035,113
Management fee	12,500
Amortization of deferred charges	6,616
Change in fair value of interest rate swap	2,051,465
Interest expense	561,790
Total expenses	<u>3,667,484</u>
Change in unrestricted net assets	—
Unrestricted net assets March 10, 2005 (inception)	—
Unrestricted net assets June 30, 2005	<u><u>\$ —</u></u>

*See accompanying notes.*

USF Financing Corporation and  
USF Property Corporation

Combined Statement of Cash Flows

For the Period March 10, 2005 (Inception) Through June 30, 2005

**Cash flows from operating activities**

Change in net assets	\$	–
Adjustments to reconcile change in net assets to net cash use in operating activities:		
Amortization of deferred charges		6,616
Amortization of premium on certificates of participation		(10,174)
Net realized and unrealized (gains) losses on investments		(12,485)
Change in fair value of interest rate swap		2,051,465
Changes in operating assets and liabilities:		
Due from USF		(113,730,027)
Deferred charges		(1,936,037)
Accounts payable		755,901
Interest payable		393,689
Net cash used in operating activities		<u>(112,481,052)</u>

**Cash flows from investing activities**

Capital expenditures		(1,905,511)
Purchases of investments		(29,924,010)
Proceeds from sales of investments		1,987,343
Net cash used in investing activities		<u>(29,842,178)</u>

**Cash flows from financing activities**

Proceeds from issuances of certificates of participation payable		142,452,829
Net cash provided by financing activities		<u>142,452,829</u>

Change in cash and cash equivalents		129,599
Cash and cash equivalents, March 10, 2005 (inception)		–
Cash and cash equivalents, end of year (June 30, 2005)	\$	<u><u>129,599</u></u>

**Supplemental cash flow data**

Interest paid		<u><u>\$ 227,903</u></u>
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*See accompanying notes.*

USF Financing Corporation  
USF Property Corporation

Notes to Combined Financial Statements

Period From March 10, 2005 (Inception) Through June 20, 2005

**1. Summary of Significant Accounting Policies**

**Organization**

*The Financing Corporation*

The USF Financing Corporation (Financing Corporation) is a Florida not-for-profit corporation organized and operated exclusively to receive, hold, invest and administer property and to make expenditures to or for the benefit of the University of South Florida (USF). The Financing Corporation has been certified by the University Board of Trustees as a “University Direct-Support Organization” as defined in Section 1004.28, Florida Statutes. Pursuant to Florida statutory authority, the Financing Corporation is authorized to enter into agreements to finance, design and construct, lease, lease purchase, purchase, or operate facilities necessary or desirable to serve the needs and purposes of the University. The Financing Corporation was incorporated on February 8, 2005 and began operating on March 10, 2005. The Financing Corporation is managed, its properties controlled, and its affairs governed under the direction of its Board of Directors.

*The Property Corporation*

The USF Property Corporation (Property Corporation) is a Florida not-for-profit corporation formed for the primary purpose of acting as lessor in connection with “lease-purchase” financings in support of the activities and educational purposes of the University of South Florida and of the Financing Corporation by assisting in acquiring facilities and constructing facilities on the University campus and, in general, furthering the University’s educational mission. The Property Corporation was incorporated on February 8, 2005 and began operating on March 10, 2005. The Property Corporation is managed, its properties controlled, and its affairs governed under the direction of its Board of Directors. The sole member of the Property Corporation is the Financing Corporation.

USF Financing Corporation  
USF Property Corporation

Notes to Combined Financial Statements (continued)

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

**Combined Financial Statements**

These combined financial statements include the accounts of the Financing Corporation and the Property Corporation (collectively, the Corporation) due to the Financing Corporation's ongoing economic interest in the Property Corporation and its ability to control the activities of the Property Corporation through common Boards of Directors. All transactions and related account balances between the Financing Corporation and the Property Corporation have been eliminated in these combined financial statements.

**Basis of Presentation**

The accompanying combined financial statements of the Corporation have been prepared on the accrual basis of accounting and are prepared under the guidance of Statements of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117, *Financial Statements of Not-for-Profit Organizations*.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. In the accompanying combined financial statements, all net assets and changes in net assets are recorded as unrestricted net assets since they are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors, or may otherwise be limited by contractual agreements with outside parties. Expenses are reported as decreases in unrestricted net assets.

**Cash and Cash Equivalents**

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

**Financial Instruments**

Financial instruments are held for the benefit of future construction and are managed and evaluated by a trustee. Financial instruments are selected so as to maintain a conservative portfolio and minimize risk.

USF Financing Corporation  
USF Property Corporation

Notes to Combined Financial Statements (continued)

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

**Investments**

Investments are carried at fair value based on published quotations from national exchanges or over-the-counter market.

**Investment Income**

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 reflected on a settlement-date basis, which does not differ materially from the trade-date basis. The cost of investments sold is determined using the specific-identification method.

Investment earnings are recorded on the accrual basis, net of related expenses. Net earnings (including realized and unrealized gains and losses) are recognized as unrestricted investment income.

**Deferred Charges**

Deferred charges consist of debt issuance costs and are being amortized over the life of the related debt using the straight-line method which approximates the effective interest method.

**Income Taxes**

The Financing Corporation and Property Corporation have applied for 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.

**Use of Estimates**

The preparation of combined 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.

USF Financing Corporation  
USF Property Corporation

Notes to Combined Financial Statements (continued)

**2. Cash and Cost Equivalents and Investments**

All cash and cash equivalents and investments of the Corporation are held with The Bank of New York Trust Company, N.A. as Trustee and have been restricted in terms of permitted investments in accordance with the Master and Supplemental Trust Agreements with the Trustee and Financing Corporation (see footnote 3). Investments are carried at fair value and consist of the following at June 30, 2005:

	<b>Cost</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 129,599	\$ 129,599
Money Market funds	27,949,153	27,949,153
	\$ 28,078,752	\$ 28,078,752

Investment income for the period March 10, 2005 (inception) through June 30, 2005 is comprised of the following:

Interest and dividends	\$ 24,783
Less: Investment expenses	(2,123)
Investment income, net	\$ 22,660

**3. Certificates of Participation Payable (Non-Recourse Transaction)**

The Financing Corporation, on May 25, 2005, issued \$47,995,000 Certificates of Participation Series 2005A, \$46,125,000 Certificates of Participation Series 2005B-1 and \$46,125,000 Certificates of Participation Series 2005B-2, which are being issued pursuant to a Master Trust Agreement, dated as of May 1, 2005, as supplemented by the Series 2005 Supplemental Trust Agreement, dated as of May 1, 2005, by and among The Bank of New York Trust Company, N.A., as Trustee, the USF Property Corporation, a Florida not-for-profit corporation, as lessor, and USF Financing Corporation, as lessee. The 2005 Certificates represent an undivided proportionate interest of the owners thereof in the right to receive Basic Rent Payments payable under the Master Lease Purchase Agreement, dated as of May 1, 2005 by and between the Property Corporation and the Financing Corporation, as supplemented by Lease Schedule No. 2005 annexed thereto, dated as of May 1, 2005.

USF Financing Corporation  
USF Property Corporation

Notes to Combined Financial Statements (continued)

**3. Certificates of Participation Payable (Non-Recourse Transaction) (continued)**

The Property Corporation has entered into a Ground Lease Agreement, dated as of May 1, 2005, with the University whereby the University has leased to the Property Corporation the land on which the Project is or shall be located, which has been subleased to the Financing Corporation by the Property Corporation pursuant to the Lease Agreement. Such land has been leased to the University by the State Board of Trustees of the Internal Improvement Trust Fund (IITF) for ninety-nine years from February 18, 1974. All of the right, title and interest of the Property Corporation in the Lease Agreement, including the right of the Property Corporation to receive Lease Payments, to use, sell and relet properties and to exercise remedies thereunder and under the Ground Lease, have been irrevocably assigned by the Property Corporation to the Trustee pursuant to a Series 2005 Assignment Agreement, dated as of May 1, 2005. Pursuant to the Assignment Agreement, the Property Corporation has also assigned to the Trustee all of its right, title and interest in the Ground Lease.

The payment of regularly scheduled principal and interest on the 2005 Certificates will be guaranteed under the terms of the financial guaranty insurance policy issued by Ambac Assurance Corporation.

The proceeds of the 2005 Certificates will be used by the Financing Corporation pursuant to the Trust Agreement to provide funds for the purpose of financing the cost to lease purchase certain student housing facilities and a related parking facility, the Project, and paying certain expenses related to the issuance and sale of the 2005 Certificates including the financial guaranty insurance policy premium. A portion of the proceeds of the Series 2005 Certificates will be used retire or defease the University's prior housing financings. Certain proceeds of the 2005 Certificates will be used for the acquisition by the Financing Corporation of the housing facilities and a parking facility which are to be constructed on the University's St. Petersburg Campus.

In addition to the redemption of the University of South Florida Foundation, Inc. Certificates of Participation, a portion of the proceeds (\$9,614,955.46) of the newly issued Certificates of Participation were used to advance refund the State of Florida, Board of Regents, University of South Florida Housing Facility Revenue Bonds, Series 1996A. Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets are not included in the Corporation's statement of financial position. The original liability for the debt has been removed from the University of South

USF Financing Corporation  
USF Property Corporation

Notes to Combined Financial Statements (continued)

**3. Certificates of Participation Payable (Non-Recourse Transaction) (continued)**

Florida's statement of net assets in consideration for the deposit of funds into an irrevocable trust established to defease the bonds pursuant to an Escrow Deposit Agreement entered into with The Bank of New York Trust Company, N.A., as Escrow Agent, and the Corporation. The amounts on deposit with the trustee to defease these bonds at June 30, 2005 was \$9,640,931.

The following is a schedule by years of future payments payable under the certificate of participation agreements, as of June 30, 2005:

Fiscal year ending June 30:

2006	\$ 3,393,840
2007	7,380,688
2008	7,594,525
2009	8,156,656
2010	8,160,363
Thereafter	<u>211,360,181</u>
Total minimum lease payments	246,046,253
Less amounts representing interest	<u>(105,801,253)</u>
Present value of future minimum lease payments	140,245,000
Plus premium	<u>2,197,656</u>
Certificates of participation payable	<u><u>\$ 142,442,656</u></u>

The 2005A fixed rate Certificates bear a true interest cost to maturity of 4.196% (the average coupon rate equals 4.69%, as the Certificates were issued at an average price of 104.598). Interest on the 2005A Certificates is payable on January 1 and July 1 of each year, commencing January 1, 2006. Principal on the 2005A Certificates is payable on July 1 of each year, commencing July 1, 2006. The 2005A Certificates maturing on or before July 1, 2015 are not subject to optional prepayment. The 2005B Certificates will initially bear interest at Auction Rates (as defined in the Trust Agreement) for generally successive 7-day Auction Periods. For purposes of the Debt Service Schedule, interest on the 2005B Certificates has been assumed at 3.85% per annum. The 2005B Certificates are subject to mandatory prepayment prior to maturity on each July 1 in the years beginning in 2008. The 2005 Certificates mature in 2035.

USF Financing Corporation  
USF Property Corporation

Notes to Combined Financial Statements (continued)

**4. Interest Rate Swap Agreement**

On May 18, 2005, USF Financing Corporation entered into an interest rate swap agreement to limit the effect of changes in interest rates on the 2005 Certificates (see Note 3). The notional principal amount of the swap agreement is \$80,000,000. The effect of the agreement is to limit the interest expense to 3.2195% on \$80,000,000 of the total \$92,250,000 principal in variable rate Series 2005B Certificates through the term of the swap agreement, which expires July 1, 2015.

The fair value of the swap agreement is the estimated amount the Financing Corporation would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the counterparties. The fair value of the Financing Corporation's swap agreement at June 30, 2005 is \$2,051,465 and is included as a liability on the statement of financial position and change in fair value of interest rate swap in the statement of activities and changes in net assets as of and for the period from March 10, 2005 (inception) through June 30, 2005.

**5. Concentrations of Credit Risk**

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of its cash and cash equivalents and investments. However, the Corporation 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.

**6. Related-Party Transactions**

Pursuant to the Lease-Purchase and Trust Agreements, the University remits all receipts from the University housing operations at the Tampa and St. Petersburg campuses as well as all parking revenue from the St. Petersburg campus to the Trustee for payment of principal and interest on the Certificates of Participation and other expenses of the Corporation. Pursuant to a Management Agreement between the University and the Financing Corporation, dated May 1, 2005, the Trustee pays to the University a management fee of \$150,000 per year, for services such as managing the housing and parking projects and collecting revenues.

USF Financing Corporation  
USF Property Corporation

Notes to Combined Financial Statements (continued)

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

In accordance with the Management Agreement, the University is required to manage and operate the housing and parking properties in a prudent and efficient manner, leasing the space to Qualified Residents. Also under the terms of that Agreement, the University is not authorized to establish, change or revise rents that have been established by the Financing Corporation. In accordance with the Master Trust Agreement, the Trustee first applies gross rental revenue receipts to the payment of principal and interest and the maintenance of debt service reserves, and then, to the extent that revenues exceed debt service and related reserves, the Trustee would pay its Trustee fees, provide payment to the University for its operating expenses, provide for facility renewal and replacement reserves, and pay the University its management fee.

The result of these agreements is that the University is required to manage the property to ensure that there will first be sufficient rent to pay the debt service obligations and then support operations. The University is also required to support the Corporation by advancing the amounts necessary for the Corporation to fulfill its obligations. A due from the University is recorded on the Corporation's statement of financial position in an amount that reflects the substance of these agreements. At June 30, 2005, the balance of this receivable was \$113,730,027, detailed as follows:

Due from USF to Corporation for repayment of Housing System debt, net of funds transferred in at closing	\$ 111,132,817
Due from USF to Corporation for cash collections through June 30, 2005 from USF housing system activities	377,881
Due from USF to Corporation for excess of operating expenses over cash collections	3,266,942
Due to USF from Corporation for operating expenses	(1,035,113)
Due to USF from Corporation for management fee	(12,500)
Net due from USF to Corporation	<u>\$ 113,730,027</u>

During the period March 10, 2005 (inception) through June 30, 2005, the University transferred to the Financing Corporation an amount equal to the cash collections from May 25 to June 30, 2005, plus any excess required for the operating expenses for that period. The total of this support was \$3,644,824.