

CONSOLIDATED FINANCIAL STATEMENTS

USF Financing Corporation and USF Property Corporation
Years Ended June 30, 2007 and 2006
With Report of Independent Certified Public Accountants

USF Financing Corporation and
USF Property Corporation

Consolidated Financial Statements

Years Ended June 30, 2007 and 2006

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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 consolidated statements of financial position of the USF Financing Corporation and USF Property Corporation (collectively, the Corporation) as of June 30, 2007 and 2006, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended June 30, 2007 and 2006. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audits 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 Corporation'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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation as of June 30, 2007 and 2006, and the consolidated changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2007, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



October 19, 2007

USF Financing Corporation and
USF Property Corporation

Consolidated Statements of Financial Position

	June 30	
	2007	2006
Assets		
Cash and cash equivalents	\$ 17,938	\$ –
Investments	55,926,681	97,173,998
Due from University of South Florida	99,004,599	105,053,833
Due from Medical Services Support Corporation	123,652	–
Accounts Receivable	242,436	–
Interest rate swap receivable	1,475,716	2,770,215
Deferred charges, net of accumulated amortization of \$203,841 and \$96,219, respectively	2,589,432	2,697,054
Construction in progress	47,955,519	30,544,721
Buildings and building improvements, net of accumulated depreciation of \$648,053 and \$0, respectively	27,739,003	–
Furniture, fixtures and equipment, net of accumulated depreciation of \$126,809 and \$0, respectively	912,697	–
Total assets	\$ 235,987,673	\$ 238,239,821
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 3,321,592	\$ 3,686,210
Interest payable	3,832,574	3,426,351
Due to Medical Services Support Corporation	–	474,636
Due to University Medical Service Association	38,210	–
Certificates of participation payable	228,795,297	230,652,624
Total liabilities	235,987,673	238,239,821
Net assets:		
Unrestricted	–	–
Total liabilities and net assets	\$ 235,987,673	\$ 238,239,821

See accompanying notes.

USF Financing Corporation and
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Consolidated Statements of Activities and Changes in Net Assets

	Year Ended June 30	
	2007	2006
Revenues:		
Operating revenues:		
University of South Florida Housing System		
Revenue:		
Amounts deposited with the Trustee	\$ 24,566,050	\$ 20,936,622
Less: Excess of amounts deposited with Trustee over operating and other costs	6,013,459	10,101,994
Net University of South Florida Housing System Revenue	18,552,591	10,834,628
Medical Services Support Corporation Revenue:		
Lease revenue	269,219	8,888
Less: Excess of amounts deposited with Trustee (under) over operating and other costs	(607,176)	483,524
Net Medical Services Support Corporation Revenue (Expense)	876,395	(474,636)
Net operating revenues	19,428,986	10,359,992
Other revenues:		
Change in fair value of interest rate swap	(1,294,499)	4,821,680
Investment income, net	566,895	174,029
Total revenues	18,701,382	15,355,701
Expenses:		
Operation and maintenance expense	12,249,542	10,924,762
Management fee	237,843	150,000
Interest expense	4,831,355	3,969,729
Amortization of deferred charges	107,622	89,603
Depreciation expense	774,862	-
Renewal and replacement expense	97,098	-
General and administrative expenses	403,060	221,607
Total expenses	18,701,382	15,355,701
Change in unrestricted net assets	-	-
Unrestricted net assets, beginning of year	-	-
Unrestricted net assets, end of year	\$ -	\$ -

See accompanying notes.

USF Financing Corporation and
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Consolidated Statements of Cash Flows

	Year Ended June 30	
	2007	2006
Operating activities		
Change in net assets	\$	-
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of deferred charges	107,622	89,603
Depreciation of buildings and building improvements	648,053	-
Depreciation of furniture, fixture and equipment	126,809	-
Amortization of premium on certificates of participation	(122,093)	(122,091)
Amortization of discount on certificates of participation	19,766	8,235
Change in fair value of interest rate swap	1,294,499	(4,821,680)
Changes in operating assets and liabilities:		
Due from University of South Florida	6,049,234	8,676,194
Due from Medical Services Support Corporation	(123,652)	-
Accounts receivable	(242,436)	-
Deferred charges	-	(857,237)
Accounts payable	(364,618)	2,930,309
Interest payable	406,223	3,032,662
Due to Medical Services Support Corporation	(474,636)	474,636
Due to University Medical Service Association	38,210	-
Net cash provided by operating activities	7,362,981	9,410,631
Investing activities		
Capital expenditures	(46,837,360)	(28,639,210)
Purchases of investments	(96,381,251)	(132,570,638)
Proceeds from sales or maturities of investments	137,628,568	63,345,793
Net cash used in investing activities	(5,590,043)	(97,864,055)
Financing activities		
Proceeds from issuances of certificates of participation	-	88,323,825
Principal paid on debt	(1,755,000)	-
Net cash (used in) provided by financing activities	(1,755,000)	88,323,825
Change in cash and cash equivalents	17,938	(129,599)
Cash and cash equivalents, beginning of year	-	129,599
Cash and cash equivalents, end of year	\$ 17,938	\$ -
Supplemental cash flow data		
Interest paid, net of amounts capitalized	\$ 4,932,482	\$ 937,067

See accompanying notes.

USF Financing Corporation and USF Property Corporation

Notes to Consolidated Financial Statements

Years Ended June 30, 2007 and 2006

1. Summary of Significant Accounting Policies

Organization

The Financing Corporation

USF Financing Corporation (the 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 (the University or 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

USF Property Corporation (the 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.

Consolidated Financial Statements

These consolidated 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 members of Boards of Directors. All transactions and related account balances between the Financing Corporation and the Property Corporation have been eliminated in these consolidated financial statements.

USF Financing Corporation and
USF Property Corporation

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

The accompanying consolidated financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States 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 consolidated 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.

Investments

Investments are carried at fair value based on published quotations from national exchanges or over-the-counter markets. All moneys held by the Trustee are invested in permitted investments pursuant to the Trust Agreement. The Board of Directors has adopted a written investment policy and selects financial instruments so as to maintain a conservative portfolio and minimize risk.

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.

USF Financing Corporation and
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Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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.

Capitalization of Interest

Interest costs incurred during the construction period are capitalized as part of the cost of constructing fixed assets. In instances where proceeds of the related debt are used to finance the construction, the interest earned on such funds is offset against the interest costs capitalized.

Fixed Assets

Fixed Assets are reported at cost less accumulated depreciation. Donated assets are recorded at their estimated fair value at the date of donation. The Corporation capitalizes those assets exceeding the capitalization threshold for the specific capital asset category in accordance with the Corporation's policy.

The Corporation depreciates fixed assets on a straight-line basis over the estimated useful life of the respective asset. Useful lives range from 3 to 20 years for furniture, equipment and other fixed assets and 35 to 40 years for buildings and building improvements.

Impairment of Long-Lived Assets

The Corporation evaluates the recoverability of its fixed assets whenever adverse events or changes in the business climate indicate that the expected undiscounted future cash flows from the related asset may be less than previously anticipated. If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount would be reduced to the present value of its expected future cash flows and an impairment loss would be recognized. No indicators of impairment existed at June 30, 2007 or 2006.

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.

USF Financing Corporation and
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Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Financing Corporation and Property Corporation have applied for tax-exempt status under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986 as amended.

Use of Estimates

The preparation of consolidated 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 and the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time estimates are made, actual results could differ from those estimates.

2. Cash and Cash 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 Note 8). Investments are carried at fair value and consist of the following:

	June 30			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 17,938	\$ 17,938	\$ —	\$ —
Money market and pooled investment funds	55,926,681	55,926,681	97,173,998	97,173,998
	<u>\$ 55,944,619</u>	<u>\$ 55,944,619</u>	<u>\$ 97,173,998</u>	<u>\$ 97,173,998</u>

USF Financing Corporation and
USF Property Corporation

Notes to Consolidated Financial Statements (continued)

2. Cash and Cash Equivalents and Investments (continued)

Investment income is comprised of the following:

	Year Ended June 30	
	2007	2006
Interest and dividends	\$ 3,946,283	\$ 1,833,749
Less: investment expenses	(92,076)	(108,326)
Less: net investment income capitalized	(3,457,504)	(1,551,394)
Plus: net investment income accrued	170,192	—
Investment income, net	\$ 566,895	\$ 174,029

3. Related-Party Transactions

Pursuant to the Lease-Purchase and Trust Agreements relating to the Series 2005A&B Certificates, the University remits all revenue 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 (increased annually by CPI) for services such as managing the housing and parking projects and collecting revenues.

In accordance with the Management Agreement, the University is required to manage, operate, and maintain the properties in a prudent and efficient manner. 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.

Pursuant to the Facility Lease and Management Agreement relating to the Series 2005C Certificates, the University makes lease payments, as revenue, in an amount equal to one hundred twenty percent (120%) of the Basic Rent payable and one hundred percent (100%) of

USF Financing Corporation and
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Notes to Consolidated Financial Statements (continued)

3. Related-Party Transactions (continued)

the Supplemental Rent due. The Marshall Center Lease Payment provided for in the Lease is an absolute net return to Financing Corporation to yield the amount necessary to pay all amounts due under the Lease Schedule and all costs, expenses, and obligations that may be necessary in connection with the use, occupancy, or operation of the Facility. The University also covenants and agrees to contribute \$9,230,000 toward payment of costs of the Marshall Center Facility representing funds previously collected by the University and \$14,337,000, or the amount available, of funds on deposit in its Capital Improvement Trust Fund.

Pursuant to the Ground Lease Agreement relating to the Series 2006A Certificates, the University covenants and agrees to contribute toward payment of costs of the North and South Clinic Facilities \$28,000,000, or the amount available, representing Public Education Capital Outlay funds. The University also covenants to cause Florida Health Science Center Inc., d/b/a Tampa General Hospital, to contribute an additional \$8,600,000.

The University is required to support the Corporation by transferring the amounts necessary for the Corporation to fulfill its obligations. A receivable from the University is recorded on the Corporation's statement of financial position in an amount that reflects the substance of these agreements. At the end of the Corporation's fiscal year, pursuant to the substance of the Series 2005A&B and Series 2005C Certificate Agreements, certain excess University remittances to the Trustee and the University's interest in the change in the fair value of the interest rate swap over its share of actual operating and other expenses are presented as "excess of amounts deposited with Trustee over (under) operating and other costs" on the statement of activities and changes in net assets and the corresponding receivable from (payable to) the University is adjusted accordingly.

USF Financing Corporation and
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Notes to Consolidated Financial Statements (continued)

3. Related-Party Transactions (continued)

At June 30, 2007 and 2006, the balance of this receivable was \$99,004,599 and \$105,053,833, respectively, detailed as follows:

	June 30	
	2007	2006
Due from USF for repayment of Housing System debt, net of funds transferred in at closing	\$ 111,132,817	\$ 111,132,817
Due from USF for contributions to Marshall Center Project	23,799,199	23,799,199
Due from USF for contributions to North and South Clinic Facilities Project	35,836,060	35,836,060
Due from USF for cash collections through June 30, 2007 from USF Housing System activities	449,032	459,446
Excess of amounts deposited with Trustee (over) under operating and other costs	(70,993,885)	(65,182,616)
Due to USF for operating expenses	(1,067,961)	(978,573)
Due to USF for management fee	(12,843)	(12,500)
Due to USF for funds advanced under Promissory Note (see Note 10)	(137,820)	—
Net due from USF	\$ 99,004,599	\$ 105,053,833

Pursuant to the Facility Lease Agreements relating to the Series 2006A Certificates, the University of South Florida Medical Services Support Corporation (MSSC) makes lease payments, as revenue, to the Trustee in an amount equal to one hundred twenty percent (120%) of the Basic Rent payable, one hundred percent (100%) of the Supplemental Rent due, and one hundred percent (100%) of Additional Rent due. The Lease Payment provided for in the Lease is an absolute net return to Financing Corporation to yield the amount necessary to pay all amounts.

Pursuant to this agreement, the Trustee pays to the University a management fee of \$100,000 for the North and South Clinic Facilities per year (increased annually by CPI) for services such as managing the health projects and collecting revenues.

USF Financing Corporation and
USF Property Corporation

Notes to Consolidated Financial Statements (continued)

3. Related-Party Transactions (continued)

A receivable from (payable to) MSSC is recorded on the Corporation's statement of financial position in an amount that reflects the substance of these agreements. At the end of the Corporation's fiscal year, pursuant to the Series 2006A Certificate Agreements, certain excess MSSC remittances to the Trustee and MSSC's interest in the fair value of the interest rate swap over its share of actual operating and other expenses are presented as "excess of amounts deposited with Trustee over (under) operating and other costs" on the statement of activities and changes in net assets and the corresponding receivable from (payable to) MSSC is adjusted accordingly. At June 30, 2007 and 2006, the balance of this receivable (payable) was \$123,652 and \$(474,636), respectively, detailed as follows:

	June 30	
	2007	2006
Due from MSSC for lease payments due through June 30, 2007	\$ —	\$ 8,888
Prior year's excess of amounts deposited with Trustee	(483,524)	—
Excess of amounts deposited with Trustee under (over) operating and other expenses	607,176	(483,524)
Net due from (to) MSSC from the Corporation	\$ 123,652	\$ (474,636)

4. Concentrations of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of its cash and cash equivalents, investments, and derivatives (interest rate swaps). The Corporation maintains its cash and cash equivalents, investments, and derivatives with institutions that management believes to be of high credit quality and limits the amount of credit exposure to any one particular investment, financial institution, or derivative counterparty.

USF Financing Corporation and
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Notes to Consolidated Financial Statements (continued)

5. Construction in Progress

The Financing Corporation, pursuant to the Trust Agreements, funded the development costs of the following projects:

	June 30	
	2007	2006
St. Petersburg Housing and Parking Facilities (Series 2005B)	\$ 27,387,555	\$ 26,676,760
Marshall Center Student Union (Series 2005C)	10,616,618	–
North Clinic Health Facility (Series 2006A)	14,560,518	–
South Clinic Health Facility (Series 2006A)	22,257,881	3,058,661
Medical Office Building (Series 2007A)	38,210	–
Magnolia Student Housing Facility (Series 2007A)	137,820	–
Capitalized Project-Related Interest Cost	868,724	809,300
Transfers to Fixed Assets for completed projects	(27,911,807)	–
Construction in Progress	\$ 47,955,519	\$ 30,544,721

Interest is capitalized under the provisions of SFAS No. 34, Capitalization of Interest Cost, and SFAS No. 62, Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants, an Amendment of SFAS No. 34. Interest expense incurred was \$8,423,772 and \$6,249,790 for the years ended June 30, 2007 and 2006, respectively. Of the interest-related expense incurred, \$3,490,090 and \$2,280,061 was capitalized for the years ended June 30, 2007 and 2006, respectively. Related broker-dealer expense incurred was \$252,379 and \$242,182 for the years ended June 30, 2007 and 2006, respectively. Of the related broker-dealer expenses incurred, \$23,658 and \$80,633 was capitalized for the years ended June 30, 2007 and 2006, respectively. These amounts are offset by capitalized net interest income earned on funds used to finance construction of \$3,457,504 and \$1,551,394 for the years ended June 30, 2007 and 2006, respectively.

USF Financing Corporation and
USF Property Corporation

Notes to Consolidated Financial Statements (continued)

6. General and Administrative Expenses

General and administrative expenses for the years ended June 30, 2007 and 2006, were as follows:

	Year Ended June 30	
	2007	2006
Letter of credit fees	\$ 145,809	\$ 42,844
Broker/dealer fees	228,721	161,549
Trustee fees	13,227	5,285
Costs of issuance	2,523	—
Auction agent fees	5,535	—
Ratings fees	7,000	—
Corporate expenses	245	11,929
General and administrative expenses	<u>\$ 403,060</u>	<u>\$ 221,607</u>

7. Buildings, Furniture and Improvements

Buildings and building improvements consist of the following at June 30:

	Year Ended June 30	
	2007	2006
Buildings	\$ 27,763,799	\$ —
Building improvements	623,257	—
Buildings and building improvements	<u>28,387,056</u>	—
Less accumulated depreciation	(648,053)	—
Building and building improvements, net	<u>\$ 27,739,003</u>	<u>\$ —</u>

USF Financing Corporation and
USF Property Corporation

Notes to Consolidated Financial Statements (continued)

7. Buildings, Furniture and Improvements (continued)

Furniture, fixtures and equipment consist of the following at June 30:

	Year Ended June 30	
	2007	2006
Furniture and equipment	\$ 1,036,136	\$ —
Computer equipment	3,370	—
Furniture, fixtures and equipment	1,039,506	—
Less accumulated depreciation	(126,809)	—
Furniture, fixtures and equipment, net	\$ 912,697	\$ —

The Corporation has certain projects in progress and expects to spend approximately \$115,378,432 for the completion of these projects. The construction costs for completion of these projects will be paid for with the proceeds from the respective certificates of participation and contributions from the University.

8. 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, 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 Property Corporation, as lessor, and the Financing Corporation, as lessee. The Series 2005A&B 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.

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 St. Petersburg Housing and Parking facilities, funded by the Series 2005A&B Certificates, are 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 99 years from

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Notes to Consolidated Financial Statements (continued)

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

January 22, 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 Series 2005A&B Certificates have been guaranteed under the terms of the financial guaranty insurance policy issued by Ambac Assurance Corporation.

The proceeds of the Series 2005A&B Certificates are being 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, and paying certain expenses related to the issuance and sale of the Series 2005A&B Certificates including the financial guaranty insurance policy premium. A portion of the proceeds of the Series 2005A&B Certificates have been used to retire or defease the University's prior housing financings. Certain proceeds of the Series 2005A&B Certificates have been used for the acquisition by the Financing Corporation of the housing facilities and a parking facility which were 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 of the Series 2005A&B 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 were not included in the Corporation's statement of financial position. The original liability for the debt has been removed from the University'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 Financing Corporation. Cash and securities were transferred from the University's Bank of New York trust to the Florida State Board of Administration for the purpose of defeasing the outstanding Series 1996A Bonds and calling the Series 1996A Bonds maturing in the years 2007 through 2026 for redemption on July 1, 2006. Therefore, the amount on deposit with the trustee at June 30, 2007 was \$0.

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Notes to Consolidated Financial Statements (continued)

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

The Financing Corporation, on January 19, 2006, issued \$41,610,000 Certificates of Participation Series 2005C, pursuant to a Master Trust Agreement, dated as of May 1, 2005, as supplemented by the Series 2005C Supplemental Trust Agreement, dated as of December 1, 2005, by and among The Bank of New York Trust Company, N.A., as Trustee, the Property Corporation, as lessor, and the Financing Corporation, as lessee. The Series 2005C 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. 2005C annexed thereto, dated as of December 1, 2005.

The Property Corporation has entered into the First Ground Lease Supplement, dated as of December 1, 2005, with the University whereby the University has leased to the Property Corporation the land on which the Marshall Center, funded by the Series 2005C Certificates, 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 99 years from January 22, 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 and supplemented by the First Supplement to 2005 Assignment Agreement, dated as of December 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 Series 2005C Certificates have been guaranteed under the terms of the financial guaranty insurance policy issued by Ambac Assurance Corporation.

The proceeds of the Series 2005C 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 a new student center, and paying certain expenses related to the issuance and sale of the Series 2005C Certificates including the financial guaranty insurance policy premium.

USF Financing Corporation and
USF Property Corporation

Notes to Consolidated Financial Statements (continued)

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

The Financing Corporation, on March 16, 2006, issued \$47,315,000 Certificates of Participation Series 2006A, pursuant to a Master Trust Agreement, dated as of March 1, 2006, as supplemented by the Series 2006 Supplemental Trust Agreement, dated as of March 1, 2006, by and among The Bank of New York Trust Company, N.A., as Trustee, the Property Corporation, as lessor, and the Financing Corporation, as lessee. The 2006A 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 March 1, 2006 by and between the Property Corporation and the Financing Corporation, as supplemented by Lease Schedule No. 2006 annexed thereto, dated as of March 1, 2006.

The Property Corporation has entered into a Ground Lease Agreement, dated as of March 1, 2006, with the University whereby the University has leased to the Property Corporation interest in the lands upon which the North Clinic Facility and the South Clinic Facility, funded by the Series 2006A Certificates, will be constructed, which has been subleased to the Financing Corporation by the Property Corporation pursuant to the Lease Agreement. With respect to the South Clinic Facility site, the University possesses sublease interest in the site pursuant to a Sublease, dated as of March 15, 2006, between the University and Florida Health Science Center, Inc., d/b/a Tampa General Hospital, whereby Tampa General Hospital will sublease to the University the land on which the South Clinic Facility will be constructed. The Financing Corporation has subleased both the North Clinic Facility and the South Clinic Facility to MSSC, pursuant to individual office building lease agreements, each dated as of March 1, 2006.

University Medical Service Association (UMSA) has guaranteed all payments due from MSSC to the Financing Corporation under both Facility Lease Agreements pursuant to a Lease Guaranty, dated as of March 1, 2006, between UMSA and the Financing Corporation. The Financing Corporation's rights to receive all payments from MSSC under the Facility Lease Agreements and any payments required to be made by UMSA under the Lease Guaranty are collaterally assigned to the Trustee pursuant to one or more separate assignments. The Property on which the North Clinic Facility will be constructed is located on the University's Tampa campus and has been leased to the University by the State Board of Trustees of the Internal Improvement Trust Fund (IITF) for 99 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

USF Financing Corporation and
USF Property Corporation

Notes to Consolidated Financial Statements (continued)

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

Corporation to the Trustee pursuant to a Series 2006 Assignment Agreement, dated as of March 1, 2006. 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.

To provide credit enhancement for the Series 2006A Certificates, SunTrust Bank has issued and delivered to the Trustee two separate irrevocable direct-pay Letters of Credit pursuant to a Reimbursement Agreement by and among SunTrust Bank, the Financing Corporation and the Property Corporation, dated as of March 1, 2006. Under each of the Letters of Credit, the Trustee will be entitled to draw up to an amount sufficient to pay one hundred percent (100%) of the principal amount of the Series 2006A Certificates, plus interest, as applicable. The Financing Corporation and the Property Corporation agree in the Reimbursement Agreement to reimburse SunTrust Bank for drawings made under either of the Letters of Credit and to make certain other payments to SunTrust Bank.

The proceeds of the Series 2006A 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 the acquisition and construction of two fully-equipped medical office buildings consisting of the North Clinic Facility and the South Clinic Facility, funding a Capitalized Interest Account, and paying certain expenses related to the issuance and sale of the Series 2006A Certificates.

The following is a schedule by years of future payments payable under the certificate of participation agreements, as of June 30, 2007:

2008	\$ 11,070,137
2009	11,874,993
2010	13,446,270
2011	13,446,412
2012	13,445,378
Thereafter	<u>326,618,921</u>
Total minimum lease payments	389,902,111
Less amounts representing interest	<u>(162,487,111)</u>
Present value of future minimum lease payments	227,415,000
Plus premium	1,953,472
Less discount	<u>(573,175)</u>
Certificates of participation payable	<u><u>\$ 228,795,297</u></u>

USF Financing Corporation and
USF Property Corporation

Notes to Consolidated Financial Statements (continued)

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

The Series 2005A fixed rate Certificates bear a true interest cost to maturity of 4.196% (the average coupon rate equals 4.695%, as the Certificates were issued at an average price of \$104.310). Interest on the Series 2005A Certificates is payable on January 1 and July 1 of each year, commencing January 1, 2006. Principal on the Series 2005A Certificates is payable on July 1 of each year, commencing July 1, 2006. The Series 2005A Certificates maturing on or before July 1, 2015 are not subject to optional prepayment. The Series 2005B Certificates will initially bear interest at Auction Rates (as defined in the Trust Agreement) for generally successive seven-day Auction Periods. The Series 2005B Certificates are subject to mandatory prepayment prior to maturity on each July 1 in the years beginning in 2008. The Series 2005A&B Certificates mature in 2035.

The Series 2005C fixed rate Certificates bear a true interest cost to maturity of 4.557% (the average coupon rate equals 4.388%, as the Certificates were issued at an average price of \$98.281). Interest on the Series 2005C Certificates is payable on January 1 and July 1 of each year, commencing July 1, 2006. Principal on the Series 2005C Certificates is payable on July 1 of each year, commencing July 1, 2009. The Series 2005C Certificates maturing on or before July 1, 2015 are not subject to optional prepayment. The Series 2005C Certificates maturing on July 1, 2031 and 2036 are subject to mandatory prepayment prior to maturity on each July 1 in the years beginning in 2027. The Series 2005C Certificates mature in 2036.

The Series 2006A variable rate Certificates, which have been hedged to limit the effect of changes in interest rates (see Note 8), bear a true interest cost to maturity of 3.918% (the average coupon rate equals 3.578%, as the Certificates were issued at an average price of \$99.913). Principal on the Series 2006A Certificates is payable on July 1 of each year, commencing July 1, 2008. The Series 2006A Certificates will initially bear interest at Auction Rates (as defined in the Trust Agreement) for generally successive seven-day Auction Periods. During a Weekly Rate Period the Series 2006A Certificates are subject to optional prepayment. The Series 2006A Certificates mature in 2036.

The Series 2005A&B, Series 2005C and Series 2006A Certificates of Participation are all subject to certain covenants and other commitments. As of June 30, 2007, the Corporation is in compliance with all of these covenants and commitments to the best of management's knowledge. The Board of Directors has adopted a written debt management policy.

USF Financing Corporation and
USF Property Corporation

Notes to Consolidated Financial Statements (continued)

9. Interest Rate Swap Agreements

On May 18, 2005, the Financing Corporation entered into an interest rate swap agreement with Royal Bank of Canada to limit the effect of changes in interest rates on the Series 2005B Certificates (see Note 8). The initial 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.

On March 8, 2006, the Financing Corporation entered into an interest rate swap agreement with Morgan Stanley to limit the effect of changes in interest rates on the Series 2006A Certificates (see Note 8). The initial notional principal amount of the swap agreement is \$47,315,000. The effect of the agreement is to limit the interest expense to 3.578% on 100% of the total \$47,315,000 principal in variable rate Series 2006A Certificates through the term of the swap agreement, which expires July 1, 2016.

The fair value of the swap agreements 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 creditworthiness of the counterparties. The fair value of the Corporation's swap agreements at June 30, 2007 and 2006 is \$1,475,716 and \$2,770,215, respectively. These fair values are included on the statements of financial position, and change in fair value of interest rate swap in the statements of activities and changes in net assets as of and for the year ended June 30, 2007 and 2006, respectively

10. Subsequent Events

On June 4, 2007, the Boards of Directors of the Financing Corporation and the Property Corporation approved the lease-purchase financing and construction of a 1,056 bed, 423,000 square foot housing facility to be located on the Tampa campus of the University and authorized the related issuance of certificates of participation. The Series 2007 Certificates of Participation in an amount of \$73,700,000 were issued on September 25, 2007. The Certificates were issued at a floating rate with a 30-year pay fixed interest rate swap at 3.537%. These certificates were issued on parity with the outstanding Series 2005A, B and C Certificates of Participation.

The Financing Corporation and the University executed a \$2,000,000 Promissory Note dated May 2, 2007 under which the University would finance portions of the housing facility project prior to the Financing Corporation's issuance of the certificates. The Financing Corporation will

USF Financing Corporation and
USF Property Corporation

Notes to Consolidated Financial Statements (continued)

10. Subsequent Events (continued)

repay the University all amounts advanced within thirty days of the issuance of the certificates. As of June 30, 2007, the University advanced \$137,820 to satisfy construction-related invoices. This amount is included on the statement of financial position in the Construction in Progress account related to the pending transaction and is also netted against the receivable from the University.

On June 4, 2007, the Boards of Directors of the Financing Corporation and the Property Corporation also approved the lease-purchase financing and construction of a 100,000 square foot medical faculty office building to be located on the Tampa campus of the University and authorized the related issuance of certificates of participation in an amount not to exceed \$26,000,000. The proposed 30-year tax-exempt level debt service certificates of participation would be issued at a fixed rate or at a floating rate with a minimum 10-year pay fixed interest rate swap. These certificates would be issued on parity with the outstanding Series 2006A Certificates of Participation. Subject to market conditions and other managerial considerations, the issuance date is expected during the month of November.

The Financing Corporation and UMSA executed a \$1,000,000 Promissory Note dated April 30, 2007 under which UMSA would advance funds to satisfy medical office building project design and construction-related invoices prior to the Financing Corporation's issuance of the certificates. The Financing Corporation will repay UMSA all amounts advanced within thirty days of the issuance of the certificates. As of June 30, 2007, UMSA advanced \$38,210 to satisfy construction-related invoices. This amount is included on the statement of financial position in the Construction in Progress account related to the pending transaction and is also shown as a payable to UMSA.

Other Report

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

The Board of Directors
USF Financing Corporation and
USF Property Corporation

We have audited the consolidated financial statements of USF Financing Corporation and USF Property Corporation (collectively, the Corporation) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

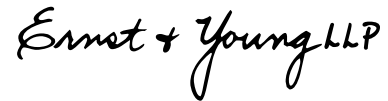
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and the management of the Corporation and is not intended to be and should not be used by anyone other than these specified parties.



October 19, 2007