

PRELIMINARY DRAFT  
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**THE UNIVERSITY OF  
NORTH FLORIDA  
FINANCING  
CORPORATION, INC.**

**Financial Statements and  
Supplemental Information**

**June 30, 2008 and 2007**

BERMAN HOPKINS  
WRIGHT & LAHAM  
CPAS AND ASSOCIATES, LLP

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## INDEPENDENT AUDITORS' REPORT

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The Board Members  
The University of North Florida  
Financing Corporation, Inc.

We have audited the accompanying special-purpose financial statements of The University of North Florida Financing Corporation, Inc. (the Financing Corporation), a direct support organization and component unit of the University of North Florida, as of and for the years ended June 30, 2008 and 2007, which collectively comprise the Financing Corporation's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Financing 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Financing Corporation as of June 30, 2008 and 2007, and the respective changes in its financial position and cash flows for years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2008, on our consideration of the Financing 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 important for assessing the results of our audit.

Management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

August 29, 2008  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

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## The University of North Florida Financing Corporation, Inc. Management's Discussion and Analysis

### Overview of the Financial Statements and Financial Analysis

The University of North Florida Financing Corporation, Inc. (the Financing Corporation) presents its financial statements for the fiscal year ended June 30, 2008. The Financing Corporation is a direct support organization and component unit of the University of North Florida (a governmental agency).

The Financing Corporation's financial statements are presented on an accrual basis, which include 1) assets and liabilities as current and non-current; 2) revenues and expenses as operating and non-operating; 3) the use of the direct method of statement of cash flows; 4) a management's discussion and analysis (MD&A) of the financial results.

The MD&A focuses on current activities, resulting changes and currently known facts to provide the reader with an overall summary of the accompanying financial statements. It should be read in conjunction with the basic financial statements and accompanying notes.

The financial statements include the following:

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1. Basic financial statements-
  - a. Balance Sheets
  - b. Statements of Revenues, Expenses, and Changes in Net Assets
  - c. Statements of Cash Flows
  - d. Notes to financial statements

### FINANCIAL HIGHLIGHTS

#### 2008

- *The Financing Corporation's* year was occupied with administering the construction funds from the proceeds of the two revenue bonds for the Student Union and Student Housing projects; accepting the assignment of the Parking System Capital Improvement Revenue Bonds from the UNF Foundation; completing a Memorandum of Understanding with the University of North Florida, and experiencing market volatility both with its guarantee insurance agent and in its investments.
- The Student Housing ("Osprey Fountains") and the Student Union construction projects are on schedule and expected to be completed in August 2009. In fiscal year 2008, all debt service and bond obligation payments were made and debt service is current.
- *Parking System Capital Improvement Revenue Bonds (Series 1998)* On September 4, 2007, an Omnibus Assignment of Agreements was executed to transfer the Parking Bonds ("the Bonds") from the UNF Foundation to the Financing Corporation. The Foundation Board and Trustee approved the assignment of the Foundation's rights, title, interests, and obligations connected with the Bonds to the Financing Corporation. This included the Collateral Assignment of Ground Lease and Operating Lease, dated as of April 18, 1998.

The Bonds \$9,600,000 outstanding obligation and bond issue costs of approximately \$78,000 were transferred to Financing. The Parking System assets consisting of land improvements and buildings (\$11,003,000) and restricted funds (\$7,808,000) used to pay debt service were transferred to the University.

The assignment was needed to provide consolidation of bond obligations under the Financing Corporation which was created to issue bonds for capital assets in support of the University.

The Bond's principal and interest payments continue to be secured by a direct pay letter of credit issued by Wachovia Bank, N.A. At the time of the assignment, the Bonds were converted from a weekly trading basis to a daily trading basis. At June 30, 2008, all debt service and bond obligations were current.

- *A Memorandum of Understanding (MOU)* was completed between the UNF Financing Corporation Board and the University of North Florida Board of Trustees. Both Boards approved the MOU that outlines the relationship of the Financing Corporation and the University to each other and the Financing Corporation's responsibilities as to asset management and transfer of funds.
- *Guarantee Insurance Agent* The rating of the Financial Guaranty Insurance Company (FGIC) hired as bond insurers for the Student Housing and the Student Union projects has been downgraded to a rating of "BB" by Standard & Poor's (S&P), "B1" by Moody's Investors Service and "CCC" by Fitch Ratings. FGIC is on CreditWatch with negative implications from S&P, outlook negative by Moody's and Rating Watch Evolving from Fitch.

In accordance with requirements of the Trust indenture, the Financing Board at its May 28, 2008 meeting agreed to accept a loan of \$9,600,000 from the UNF Board of Trustees to increase the reserve fund as required under the trust indenture as a result of the downgrading of FGIC's rating.

- *Investments: State Board of Administration (SBA)* In November 2007, the Financing Corporation had funds (approximately \$66 million) invested in the SBA when its Trustees temporarily discontinued accepting deposit or withdrawal requests for the Florida Local Government Investment (LGIP) Pool, in an attempt to prevent an onslaught of withdrawal requests and thus to avoid losses on the forced sales of assets.

The LGIP was divided into two funds - Fund A containing 86% of the assets all of which were triple money-market appropriate assets and Fund B containing the 14% of assets that had lower ratings. As of December 6, 2007, investors were able to withdraw \$2 million or 15% of their share of Fund A, with a 2% penalty if an investor exceeded the higher of these two amounts. Investors were unable to withdraw from Fund B.

The Financing Corporation funds in the LGIP Pool A were withdrawn on December 21, 2007, resulting in a 2% penalty of approximately of \$961,000, and the corporation continues to liquidate from Fund B as funds are released by the SBA. Since the earnings from the restricted investment account were intended for the exclusive use of the University of North Florida, the penalty was absorbed directly by them and is not included as an expense to the Financing Corporation.

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- *Net Assets (Deficit)* at June 30, 2008 totaled (\$45,322,000), which was an increase of 31.6% or (\$14,605,000). The majority of the increase in the deficit comes from the addition of the Parking Systems Capital Improvement Revenue Bonds.

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2007

- *The Financing Corporation Entity*- The Financing Corporation received its IRS determination letter as a 501(c)(3) organization. As a not-for-profit entity, the Financing Corporation receive, hold, invest and administer property and issue revenue bonds or other forms of indebtedness (finance or refinance capital projects) with the associated expenditures and debt service exclusively for the University of North Florida (the University).
- *Student Housing System Capital Improvement Bonds* In June 2007, *The University of North Florida Financing Corporation Capital Improvement Revenue Bonds (Housing Project), Series 2007* was issued in the amount of \$111,185,000. The Housing Project bond proceeds will be used to 1) purchase existing housing facilities from the UNF Foundation, Inc.; 2) finance the acquisition, construction and equipment of a new housing facility; 3) purchase a Reserve Product to fund the Series 2007 Account in the Reserve Fund in an amount equal to the Reserve Requirement with respect to the Series 2007 Bonds; 4) pay capitalized interest; and 5) pay the costs of issuance of the Series 2007 Bonds including the premium for a Bond Insurance Policy relating to the Series 2007 Bonds. The Series 2007 Bonds and interest are limited obligations payable solely and only from the Pledged Revenues, which means the lease revenues and the monies on deposit in the Trust Indenture fund and investment earnings excluding the 2007 Rebate Account and the Cost of Issuance Account.

The Housing Project Series 2007 Bonds will fund a new facility to be known as Osprey Fountains with approximately 366,000 square feet and 1,000 new beds and related infrastructure. Osprey Fountains will be located on 27 acres of the campus. The existing facilities from the UNF Foundation consist of Osprey Village, Osprey Hall, Osprey Landing, Osprey Cove and The Crossings. These facilities have 2,055 beds for student rental.

- *Student Union Capital Improvement Bonds* - In June 2007, *The University of North Florida Financing Corporation Capital Improvement Revenue Bonds (Student Union Project), Series 2007* were issued in the amount of \$21,235,000. The Student Union Project bond proceeds, together with other available funds, will be used to 1) finance construction and equipping of the new student union facility; 2) purchase a Reserve Product to fund the Series 2007 Account in the Reserve Fund in an amount equal to the Reserve Requirement with respect to the Series 2007 Bonds; 3) pay capitalized interest; and 4) pay the costs of issuance of the Series 2007 Bonds including the premium for a Bond Insurance Policy relating to the Series 2007 Bonds. The Series 2007 Bonds and interest are limited obligations payable solely and only from the Pledged Revenues, which means the lease revenues and the monies on deposit in the Trust Indenture fund and investment earnings excluding the 2007 Rebate Account and the cost of issuance account.
- *Grant* - The Financing Corporation received a grant from the University of North Florida Training & Services Institute, Inc. The grant, in the amount of \$7,000, was used for audit and operating funds.
- *Investments* - The Financing Corporation had minimal investment earnings of \$2,429 in fiscal year 2007.

- *Net Assets (Deficit)* at June 30, 2007 totaled (\$34.442 million), which primarily consists of the Student Housing and Student Union Capital Improvement Bonds construction funds.

The following sections in the MD&A include an analysis of the three basic financial statements listed above and an economic outlook.

## Balance Sheet

The purpose of the Balance Sheet is to present the reader with a look at the Financing Corporation's financial condition as of the end of the fiscal year.

In reading the Balance Sheet, the reader will be able to determine the Financing Corporation's ability to continue operations; how much it owes to vendors, and other lending institutions; and to see a snapshot of the new assets and their availability for expenditures by the Financing Corporation.

As of June 30,

	2008	2007	Increase (decrease)	Change
<b>Assets</b>				
Current assets	\$ 64	\$ 8	\$ 56	696.3%
Noncurrent assets	110,502	102,065	8,437	8.3%
<b>Total assets</b>	<b>110,566</b>	<b>102,073</b>	<b>8,493</b>	<b>8.3%</b>
<b>Liabilities:</b>				
Current liabilities	3,455	1,527	1,928	126.3%
Non-current liabilities	152,433	134,987	17,446	12.9%
<b>Total liabilities</b>	<b>155,888</b>	<b>136,514</b>	<b>19,374</b>	<b>14.2%</b>
<b>Net assets:</b>				
Unrestricted	(45,322)	(34,441)	(10,881)	31.6%
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 110,566</b>	<b>\$ 102,073</b>	<b>\$ 8,493</b>	<b>8.3%</b>

The Balance Sheets are presented on page 12 of the basic financial statements. For fiscal year ended June 30, 2008, the total assets were \$110.566 million. This year's activity included the following:

### Current Assets

#### 2008

- *Current assets* totaled approximately \$64,000. At fiscal year end the funds remaining on deposit consisted of cash transferred from the Foundation for the Parking System (approximately \$40,000) and the annual administrative fee (\$20,000) from the University for administering the Student Housing and Student Union bond funds.

#### 2007

- In fiscal 2007, cash and cash equivalents totaled approximately \$8,000. The funds were provided by the UNF Training & Services Institute, Inc. for the Financing Corporation's audit and operational expenses.

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## **Total Assets**

### 2008

- In fiscal 2008, *total assets* increased by \$8.493 million or 8.3%. The increase is attributed primarily to the net of funds advanced to the University as prepaid rent for the Student Housing and the Student Union projects and corresponding reduction in bond proceeds (\$4.577 million), the construction in progress due to UNF at the end of the projects for capitalized interest (\$3.723 million).

### 2007

- The total assets were \$102.073 million. The assets consisted of the construction bonds for the Student Housing Project approximately \$79.166 million and the Student Union approximately \$21.361 million. The cost of bond issuance for both projects totaled \$1.537 million.

## **Liabilities**

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### 2008

- *Current liabilities* increased by \$1.928 million. The increase is attributed to a net of an increase in accounts payable to the University primarily from interest earned (\$2,112,230) on construction trust funds, a net increase in the current portion of bond principal payments due (\$90,000) and a decrease in deferred revenue (\$248,519).
- *In fiscal 2008, non-current liabilities* increased by \$17.446 million or 12.92%. The majority of the increase stems from accepting the assignment of the parking bonds (non-current portion \$9 million) and a loan of \$9.613 million to provide additional reserve funds as prescribed by the Student Housing and Student Union bond trust indentures as a result of the downgrading of the Corporation's bond insurer.

### 2007

- Current liabilities increased by approximately \$1,527,000. This increase primarily represents the current portion of the bonds payable and an increase in accounts payable to affiliate (UNF) for the current portion of financial activities for Student Housing and Student Union.
- The non-current liabilities totaled approximately \$135 million in fiscal 2007, which primarily represent the obligations associated with the scheduled principal payments on the Student Housing and Student Union Projects and the associated premium on the Bonds.

## **Net Assets (Deficit)**

### 2008

The net deficit at June 30, 2008, totaled (\$45.322 million.)

The Net Assets section of the Balance Sheet provides one classification since a deficit position exists at June 30, 2008 and restricted assets cannot be reported if the net assets represent a deficit. The unrestricted assets are the amounts available to the Financing Corporation for any purpose in support of its mission.

### 2007

The net deficit at June 30, 2007, totaled (\$34.441 million.)

The unrestricted assets are the amounts available to the Financing Corporation for any purpose in support of its mission.

## **Statement of Revenues, Expenses, and Changes in Net Assets**

The purpose of the Statement of Revenues, Expenses, and Changes in Net Assets is to provide the details of the Financing Corporation's operating and non-operating activities for the fiscal year. This includes the revenues displayed by major source (net of discounts and allowances), expenses, and gains and losses received or expended by the Financing Corporation.

The Statement of Revenues, Expenses, and Changes in Net Assets includes the following categories:

- Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for operating revenues, and to carry out the mission of the Financing Corporation. They are detailed by expenditure type, which includes program and professional fees, etc.
- Net operating income (loss) represents the amount of operating revenue in excess of the year's operating expenses and does not include non-operating revenue.
- Non-operating revenue is received from sources for which no service is provided by the Financing Corporation (i.e. grant).
- The change in net assets is the result of the fiscal year's excess of total revenues over expenses.

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For the year ended June 30,

	2008	2007	Increase (decrease)	Change
Operating revenue	\$ 3,220	\$ -	\$ 3,220	-
Operating expenses	4,580	255	4,325	1699.4%
Non-operating revenues and transfers:				
Interest and dividends	1	2	(1)	-59.6%
Grant	-	7	(7)	-100.0%
Total non-operating revenues	1	9	(8)	-89.7%
Assignment of Parking Capital Improvement Revenue Bonds	(9,523)	-	(9,523)	-
Transfer of Student Housing Capital Improvement Revenue Bonds	-	(34,200)	34,200	-100.0%
Change in net assets	(10,881)	(34,445)	23,564	-68.4%
Net assets (deficit), beginning of year	(34,441)	4	(34,445)	-861125.0%
Net assets (deficit), end of year	\$ (45,322)	\$ (34,441)	\$ (10,881)	31.6%

The Statements of Revenues, Expenses, and Changes in Net Assets are on page 13 of the basic financial statements. For fiscal year ended June 30, 2008, the Financing Corporation's net deficit totaled (\$45.322) million. The Statements' highlights are as follows:

### ***Operating Expenses***

#### 2008

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- *Operating expenses* increased by approximately \$4.325 million.
- *Program expenses* totaled \$344. The expenses included bank fees, meeting expenses, and other annual filing fees.
- *Professional fees* totaled \$52,664. The increase of approximately \$50,000 from fiscal year 2007 (\$2,500) is attributed to expenses associated with the Financing Corporation's fees relating to the Parking Bonds (e.g. rating, remarketing, trustee, etc.)
- *Expenses associated with student housing and student union* of approximately \$3 million were for operating lease expense.
- *Other expenses* totaled \$1.580 million, which included interest expense (\$1.450 million) and scheduled amortization of approximately \$58,000.

## 2007

- In fiscal 2007, total operating expenses increased by approximately \$254,000.
- *Program expenses* totaled \$918. The expenses included bank fees, meeting expenses, and other annual filing fees.
- *Professional Fees* totaled \$2,500, the cost of the initial audit.
- *Expenses associated with student housing and student union* of approximately \$251,000 were for operating lease expense.

## **Non-operating Revenues (Expenses)**

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## 2008

- In fiscal year 2008, the primary non-operating expense of (\$9.523 million) related to the assignment of the Parking System Capital Improvement Revenue Bonds from the Foundation. The *non-operating revenues* were approximately \$1,000.

## 2007

- In fiscal year 2007, the primary non-operating expense (\$34.200 million) related to the refunding of the revenue bonds from the Foundation and transfer of the bonds to the bank escrow account. In addition, total other *non-operating revenues* were approximately \$9,000. This represents construction funds interest income of approximately \$2,000 and the grant from UNF TSI of approximately \$7,000.

## **Statements of Cash Flows**

The Statements of Cash Flows shows the cash provided and used for operating, capital and related financing activities and investing activities.

- Operating activities include payments made for the Financing Corporation's operations which excludes the operating lease activity since that was a non-cash transaction.
- Capital and related financing activities include the activity connected with the acceptance of the Series 1998 Parking Systems Capital Improvement Revenue Bonds.
- Investing activities represent the deposit to the restricted investment account as a result of the bond proceeds. In addition, the bond issuance costs were also recorded.

## **Economic Outlook**

The Financing Corporation will continue with its operational plans and has no knowledge of any current facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations.

Management believes the Financing Corporation is functioning as intended to support capital projects for the University. With detailed monitoring of each account, the Financing Corporation has sufficient funds to cover its obligations.

## Requests for Information

This financial report is designed to provide a general overview of the Financing Corporation's finances for all those with an interest therein. Questions concerning any of the information provided in this report or requests for additional information may be addressed to:

Beverly A. Evans, Director  
University of North Florida  
TSI/Foundation Accounting  
1 UNF Drive  
J. J. Daniel Hall, Room 1802  
Jacksonville, FL 32224-2648  
(904) 620-2790

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The University of North Florida Financing Corporation, Inc.

BALANCE SHEETS

June 30,

ASSETS

	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 60,003	\$ 5,944
Prepaid expenses	2,997	-
Accounts receivable from affiliate (UNF)	756	-
Accounts receivable	-	2,000
Total current assets	<u>63,756</u>	<u>7,944</u>
<b>NON-CURRENT ASSETS</b>		
Restricted investments:		
Student Housing	70,492,517	79,166,302
Student Union	10,719,362	21,361,367
Prepaid rent	23,893,105	-
Due to UNF - Construction in Progress	3,723,452	-
Deferred bond issuance costs, net	1,673,724	1,537,416
Total assets	<u>\$ 110,565,916</u>	<u>\$ 102,073,029</u>

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LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable to affiliate (UNF)	\$ 2,112,230	\$ 25,501
Deferred revenue	2,995	251,516
Current portion of Student Housing Capital Improvement Revenue Bonds	1,040,000	1,250,000
Current portion of Parking System Capital Improvement Revenue Bonds	300,000	-
Total current liabilities	<u>3,455,225</u>	<u>1,527,017</u>
<b>NON-CURRENT LIABILITIES</b>		
Student Housing Capital Improvement Revenue Bonds	108,895,000	109,935,000
Student Union Capital Improvement Revenue Bonds	21,235,000	21,235,000
Parking Systems Capital Improvement Revenue Bonds	9,000,000	-
Student Housing - Premium on Revenue Bonds	3,334,659	3,449,647
Student Union - Premium on Revenue Bonds	355,321	367,574
Notes Payable - UNF	9,613,000	-
Total liabilities	<u>155,888,205</u>	<u>136,514,238</u>
Net assets (deficit):		
Unrestricted	<u>(45,322,289)</u>	<u>(34,441,209)</u>
Total liabilities and net assets (deficit)	<u>\$ 110,565,916</u>	<u>\$ 102,073,029</u>

See accompanying notes to the financial statements.

The University of North Florida Financing Corporation, Inc.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years ended June 30,

	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUE</b>		
Lease revenue	\$ 3,144,695	\$ -
Transfer from affiliate (UNFF) for parking operations	55,539	-
Miscellaneous revenue	20,000	-
Total operating revenue	<u>3,220,234</u>	<u>-</u>
<b>OPERATING EXPENSES</b>		
Program expenses	344	918
Professional fees	52,664	2,500
Expense associated with Student Housing and Student Union operating leases	<u>3,018,194</u>	<u>251,516</u>
	<u>3,071,202</u>	<u>254,934</u>
Other expenses:		
Interest expenses	1,450,113	-
Amortization	58,274	-
	<u>1,508,387</u>	<u>-</u>
Total operating expenses	<u>4,579,589</u>	<u>254,934</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(1,359,355)</u>	<u>(254,934)</u>
<b>NON-OPERATING REVENUES AND TRANSFERS</b>		
Interest and dividends	976	2,429
Grants	-	7,000
Total non-operating revenues	<u>976</u>	<u>9,429</u>
Assignment of Parking System Capital Improvement Revenue Bonds to Financing Corporation	(9,522,701)	-
Transfer of Student Housing Capital Improvement Revenue Bonds to Bank Escrow Account	-	<u>(34,200,000)</u>
Change in net assets	(10,881,080)	(34,445,505)
Net assets (deficit), beginning of year	<u>(34,441,209)</u>	4,296
Net assets (deficit), end of year	<u>\$ (45,322,289)</u>	<u>\$ (34,441,209)</u>

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See accompanying notes to the financial statements.

The University of North Florida Financing Corporation, Inc.

STATEMENTS OF CASH FLOWS

Years ended June 30,

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	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Transfer from affiliate (UNFF) for parking operations	\$ 55,539	\$ -
Miscellaneous revenue	20,000	-
Payments to suppliers for goods and services	(21,480)	(3,352)
Net cash provided by (used in) operating activities	<u>54,059</u>	<u>(3,352)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Receipts from operating grants	-	5,000
Proceeds from capital improvement revenue bonds	-	98,220,000
Proceeds from additional premium on revenue bonds	-	3,817,221
Deposits to restricted investments through issuance of revenue bonds	-	(100,499,805)
Proceeds from sale of restricted investments	19,452,097	-
Payments from restricted investments for construction costs	(19,315,789)	-
Payments for deferred bond issuance costs	(136,308)	(1,537,416)
Net cash provided by (used in) capital and related financing activities	<u>-</u>	<u>5,000</u>
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</b>		
Interest earned on restricted investments	380,619	27,864
Purchase of restricted investments	(380,619)	(27,864)
Net cash provided by (used in) investing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	54,059	1,648
Cash and cash equivalents, beginning of year	5,944	4,296
Cash and cash equivalents, end of year	<u>\$ 60,003</u>	<u>\$ 5,944</u>
Reconciliation of operating expenses to net cash provided by (used in) operating activities:		
Operating Income (loss)	\$ (1,359,355)	\$ (254,934)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Amortization of bond issuance costs	58,274	-
Lease revenue recorded for bond reimbursement agreement	(2,896,174)	-
Amortization of prepaid rent for operating lease agreement with University of North Florida	3,018,194	-
Interest expense paid directly by University of North Florida	1,322,872	-
Amortization of premium on Revenue Bonds included as part of Interest expense	127,241	-
Changes in assets and liabilities:		
Prepaid expenses	(2,997)	-
Accounts receivable	2,000	-
Accounts payable to affiliate (UNF)	32,525	66
Deferred revenue	(248,521)	251,516
Net cash provided by (used in) operating activities	<u>\$ 54,059</u>	<u>\$ (3,352)</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:</b>		
Bond financing cash collateral requirement paid by the University of North Florida on behalf of the Financing Corporation	<u>\$ 9,613,000</u>	<u>\$ -</u>
Assignment of Parking System Capital Improvement Revenue Bonds from University of North Florida Foundation, Inc. to Financing Corporation	<u>\$ 9,600,000</u>	<u>\$ -</u>
Transfer of Student Housing Capital Improvement Revenue Bonds from University of North Florida Foundation, Inc. to Financing Corporation	<u>\$ -</u>	<u>\$ 34,200,000</u>
Principal payments on capital improvement revenue bonds made directly by the University of North Florida	<u>\$ (1,550,000)</u>	<u>\$ -</u>
Interest paid directly by the University of North Florida for capital improvement revenue bonds	<u>\$ (5,563,550)</u>	<u>\$ -</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH OPERATING ACTIVITIES:</b>		
Lease revenue recorded for bond reimbursement agreement	<u>\$ 3,144,695</u>	<u>\$ -</u>
Amortization of prepaid rent for operating lease agreement with University of North Florida	<u>\$ 2,985,669</u>	<u>\$ -</u>
Accounts payable to affiliate - UNF	<u>\$ 2,079,705</u>	<u>\$ -</u>
Due to UNF - Construction in Progress (Capitalized interest and interest income)	<u>\$ 3,723,452</u>	<u>\$ -</u>

See accompanying notes to the financial statements.



**University of North Florida Financing Corporation, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008 and 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Reporting entity

The University of North Florida Financing Corporation, Inc. (the Financing Corporation) was created in October 2005 as a not-for-profit entity organized to receive, hold, invest and administer property and to issue revenue bonds or other forms of indebtedness (finance or refinance capital projects), with the associated expenditures and debt service, exclusively for the University of North Florida (the University).

The Financing Corporation is governed by a five-member board. The board members are appointed by the University's board of trustees.

The Financing Corporation is a direct support organization and component unit of the University of North Florida (the University) under Governmental Standards Board Statement No. 14, *The Financial Reporting Entity*. The Financing Corporation's financial statements include all funds and departments controlled by the Financing Corporation or which are dependent on the Financing Corporation. No other agencies or organizations have been included in the Financing Corporation's financial statements.

2. Basic financial statements

The Financing Corporation is considered a special purpose government engaged in a single business-type activity. Business-type activities are those activities primarily supported by user fees and charges. As such, the Financing Corporation presents only the statements required of enterprise funds, which include the Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows.

3. Basis of accounting

The Financing Corporation follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus - an amendment of GASB Statements No. 21 and No. 34*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, have been implemented and incorporated into the Financing Corporation's financial statement presentation.

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University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Basis of accounting (continued)

GASB Statements No. 34 and 35 establish standards for external financial reporting, which includes a balance sheet, a statement of revenues, expenses and changes in net assets, and a statement of cash flows using the direct method. GASB Statements No. 34 and 35 also include a requirement that management provide a discussion and analysis of the basic financial statements and it requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted.

These classifications are defined as follows:

*Invested in capital assets, net of related debt* - consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets.

*Restricted* - consists of assets that have externally imposed constraints placed upon their use, either by creditors (such as through debt covenants) or through laws, regulations, or restrictions imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets.

*Unrestricted* - consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The financial statements of the Financing Corporation have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred.

As provided by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Financing Corporation has elected not to adopt any Financial Accounting Standards Board statements issued after November 30, 1989 unless so directed by the GASB.

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University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

4. Budgeting procedures

The Financing Corporation's Bylaws and related amendments have established the following budgetary procedures for the annual operating budget for its accounts.

These include:

- Prior to July 1 of each year, Financing Corporation shall prepare and submit its budget to the Board Members for the ensuing fiscal year.
- The Board may increase or decrease the budget requested by Financing Corporation on a total basis or a line-by-line basis.
- Once adopted, the total budget may only be increased through action of the Board.
- The Board approved budget is shared with the University of North Florida Board of Trustees as an information item.

All approved budgeted amounts lapse at the end of each fiscal year and must be re-appropriated.

5. Cash and cash equivalents

The Financing Corporation defines cash and cash equivalents as cash on hand, cash on deposit, and investments with original maturities of ninety days or less at the time of purchase.

6. Restricted investments

Restricted investments were established with the proceeds from the Capital Improvement Revenue Bonds. These funds will be utilized to finance the construction of various construction projects over the next 12 months.

7. Deferred bond issuance costs

Deferred bond issuance costs represent costs incurred for the issuance of the Capital Improvement Revenue Bonds. These costs are amortized on a straight-line basis through the maturity date of the bonds, and are presented net of accumulated amortization of \$58,274 for June 30, 2008.

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Deferred rental revenue

In connection with the issuance of capital improvement revenue bonds, the Financing Corporation entered into a 30 year leasing arrangement with the University of North Florida effective June 1, 2007.

*Ground Sublease Agreement*

The Financing Corporation (sublessee) has agreed to prepay to the University (sublessor) approximately \$90.5 million for rental of both the housing and student union facilities.

As payments are made in accordance with the bond documents, a resulting prepaid rent will be recorded and amortized on a straight-line basis over the lease term.

9. Premium on revenue bonds

Premium on revenue bonds incurred for the Financing Corporation are deferred and amortized over the life of the issue using the straight-line method. For the year ended June 30, 2008, \$127,241 was amortized for the premium on Student Housing (\$114,988) and Student Union (\$12,253) bonds.

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10. Operating income

The Financing Corporation's operating income includes all revenues and expenses associated with the organization's daily activities. Interest and dividends and net appreciation (depreciation) in investments are excluded from operating income. The investment income totaled \$976 and \$2,429 for June 30, 2008 and 2007, respectively. Operating income totaled \$3,144,695 and \$0 for June 30, 2008 and 2007, respectively, which includes lease income, administrative fees and Parking Bonds operations transferred from UNF Foundation.

11. Income taxes

The Financing Corporation is a tax-exempt organization as defined in Section 501(c)(3) of the Internal Revenue Code, and is not subject to federal or state income taxes.

12. Revenue recognition

The Financing Corporation received a grant from The University of North Florida Training & Services Institute, Inc. for fiscal year ended June 30, 2007, which is recorded as non-operating revenues. There were no grants received for fiscal year ended June 30, 2008.

**University of North Florida Financing Corporation, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008 and 2007**

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**NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash and cash equivalents

As of June 30, 2008 and 2007, cash and cash equivalents consisted of a bank demand account subject to immediate withdrawal.

	<u>2008</u>	<u>2007</u>
Cash	<u>\$ 60,003</u>	<u>\$ 5,944</u>

**Custodial credit risk - deposits.** Custodial credit risk for deposits is the risk that, in the event of a depository financial institution's failure, the Financing Corporation's deposits may not be returned to it. At June 30, 2008, the Financing's unrestricted cash deposits with financial institutions were \$60,003 and there were no balances in excess of FDIC limitations.

Investments

Investments are recorded at fair value and consist of SBA short-term fixed income funds and prime obligation funds.

The Financing Corporation does not have an investment policy since the balance on hand at June 30, 2008 is held by the bond trustee and will be used to fund construction costs in accordance with the bond financing documents. The principal purpose of those investments is to fund construction projects on behalf of the University.

There were no differences between the cost and fair value for the investments held as of June 30, 2008.

Interest earned on construction funds was \$2,112,230 and \$251,516 for June 30, 2008 and 2007 respectively.

**Credit risk.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2008, the Financing Corporation held securities with maturities of less than three months. The quality ratings are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Quality Rating</u>		
		<u>AAA</u>	<u>AA</u>	<u>Unrated</u>
Goldman Sachs Prime Obligation Preferred Shares	<u>\$ 81,211,881</u>	<u>\$ 81,211,881</u>	<u>\$ -</u>	<u>\$ -</u>

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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**NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)**

**Interest rate risk.** Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The Financing Corporation's policy for managing its exposure to fair value loss occurring from interest rate risk is through maintaining diversification of its investments and investment maturities so as to minimize the impact of downturns in the market.

**Income on investments.** The following summarizes net appreciation in investments for the years ended June 30, 2008 and 2007:

	2008	2007	Increase (decrease)	Change
Dividends and interest	\$ 976	\$ 2,429	\$ (1,453)	-59.8%

**NOTE C - RELATED PARTY TRANSACTIONS**

The University provides, as in-kind contributions to the Financing Corporation, support services such as office space, furnishings, and fiscal management at no cost. No value has been assigned to these items in the accompanying statement of revenues, expenses, and changes in net assets, since there is no objective basis for determining the value.

During 2008, the financial institution holding the outstanding revenue bonds determined that additional collateral was required. This was the result of a downgrade in the financial stability of the current bond insurer. The requirement was to provide additional funding to the financial institution of \$9,613,000 during 2008. To assist the Financing Corporation, the University of North Florida provided additional capital directly to the financial institution. This balance is shown as notes payable due to the University of North Florida. The note is unsecured with no formal repayment terms or interest rate. The note is recorded as a long-term liability since payment is not expected in the next twelve months.

See footnote disclosure for operating lease commitments with the University of North Florida.

**NOTE D - SEGMENT INFORMATION**

The Financing Corporation has issued separate revenue bonds to finance Housing, Student Union, and Parking facilities. The three segments are accounted for in a single fund group, but the covenants rely on the revenue generated by the individual segments to determine coverage and ability to repay the revenue bonds. The University operates the Student Union, University Parking Facilities, and University Housing and related services.

**University of North Florida Financing Corporation, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008 and 2007**

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**NOTE D - SEGMENT INFORMATION (continued)**

Summary financial information for each segment is presented below as of and for the years ended June 30, 2008 and 2007 respectively.

Condensed Balance Sheets			
As of June 30, 2008	Student Union	Student Housing	University Parking Services
<b>Assets:</b>			
Current assets	\$ -	\$ 757	\$ 42,412
Non-current assets	11,514,821	73,420,512	-
Prepaid rent	10,898,954	12,994,151	-
Bond issue costs, net	260,667	1,338,874	74,182
<b>Total assets</b>	<b>\$ 22,674,442</b>	<b>\$ 87,754,293</b>	<b>\$ 116,594</b>
<b>Liabilities:</b>			
Current liabilities	\$ 409,081	\$ 1,703,148	\$ 2,997
Non-current liabilities	22,997,322	121,475,659	9,300,000
<b>Total liabilities</b>	<b>23,406,403</b>	<b>123,178,807</b>	<b>9,302,997</b>
<b>Net assets (deficit):</b>			
Unrestricted	(731,961)	(35,424,514)	(9,186,403)
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 22,674,442</b>	<b>\$ 87,754,293</b>	<b>\$ 116,594</b>

Condensed Balance Sheets		
As of June 30, 2007	Student Union	Student Housing
<b>Assets:</b>		
Current assets	\$ -	\$ -
Non-current assets	21,361,367	79,166,302
Bond issue costs, net	246,838	1,290,578
<b>Total assets</b>	<b>\$ 21,608,205</b>	<b>\$ 80,456,880</b>
<b>Liabilities:</b>		
Current liabilities	\$ 61,238	\$ 1,465,714
Non-current liabilities	21,602,574	113,384,647
<b>Total liabilities</b>	<b>21,663,812</b>	<b>114,850,361</b>
<b>Net assets (deficit):</b>		
Unrestricted	(55,607)	(34,393,481)
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 21,608,205</b>	<b>\$ 80,456,880</b>

**University of North Florida Financing Corporation, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008 and 2007**

**NOTE D - SEGMENT INFORMATION (continued)**

Condensed Statement of Revenues, Expenses and Changes in Net Assets			
	Student Union	Student Housing	University Parking Services
For the year ended June 30, 2008			
Operating revenue	\$ -	\$ 2,585,373	\$ 559,322
Operating expenses	676,355	3,617,382	278,563
Non-operating revenues and transfers:			
Non-operating revenues	-	976	55,539
Transfer of Parking System Improvement Revenue Bonds to Financing Corporation	-	-	(9,522,701)
Change in net assets	(676,355)	(1,031,033)	(9,186,403)
Beginning net assets	(55,607)	(34,393,481)	-
Ending net assets (deficit)	<u>\$ (731,961)</u>	<u>\$ (35,424,514)</u>	<u>\$ (9,186,403)</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets		
	Student Union	Student Housing
For the year ended June 30, 2007		
Operating expenses	\$ 55,613	\$ 195,902
Non-operating revenues and transfers:		
Non-operating revenues	7	2,421
Transfer of Student Housing Capital Improvement Revenue Bonds to Bank Escrow Account	-	(34,200,000)
Change in net assets	(55,606)	(34,393,481)
Beginning net assets	-	-
Ending net assets (deficit)	<u>\$ (55,606)</u>	<u>\$ (34,393,481)</u>

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**University of North Florida Financing Corporation, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008 and 2007**

**NOTE D - SEGMENT INFORMATION (continued)**

Condensed Statement of Cash Flows

	Student Union	Student Housing	University Parking Services
For the year ended June 30, 2008			
Net cash provided by (used in):			
Capital and related financing activities	\$ -	\$ -	\$ -
Investing activities	-	-	-
Cash and cash equivalents, beginning of year	-	-	-
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Since an assignment took place for the parking services in 2008 and all debt payments are made directly by the University, there was no direct cash flow activity for the Finance Corporation segments.

Condensed Statement of Cash Flows

	Student Union	Student Housing
For the year ended June 30, 2007		
Net cash provided by (used in):		
Capital and related financing activities	\$ 21,602,574	\$ 114,634,847
Investing activities	(21,602,574)	(114,634,847)
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>

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**University of North Florida Financing Corporation, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008 and 2007**

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**NOTE E - REVENUE BONDS AND NON-CURRENT LIABILITIES**

Revenue bonds and non-current liabilities activity for the year ended June 30, 2008 is presented below:

Year ended	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
June 30, 2008:					
Student Union capital improvement revenue bonds	\$ 21,235,000	\$ -	\$ -	\$ 21,235,000	\$ -
Student housing capital improvement revenue bonds	111,185,000	-	1,250,000	109,935,000	1,040,000
Parking Systems capital improvement revenue bonds	-	9,600,000	300,000	9,300,000	300,000
Student housing premium on revenue bonds	3,449,647	-	114,988	3,334,659	-
Student housing premium on revenue bonds	367,574	-	12,253	355,321	-
<b>Total</b>	<b>\$136,237,221</b>	<b>\$ 9,600,000</b>	<b>\$ 1,677,241</b>	<b>\$144,159,980</b>	<b>\$ 1,340,000</b>

Principal and interest repayments on all capital improvement revenue bonds for the next five years and thereafter are as follows:

	<u>Housing Project</u>	<u>Student Union Project</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,040,000	\$ -	\$ 6,454,024	\$ 7,494,024
2010	1,080,000	360,000	6,404,424	7,844,424
2011	1,125,000	375,000	6,344,219	7,844,219
2012	1,195,000	390,000	6,281,113	7,866,113
2013	1,630,000	410,000	5,800,463	7,840,463
2014-2018	14,895,000	2,310,000	28,827,278	46,032,278
2019-2023	20,660,000	2,775,000	23,760,284	47,195,284
2024-2028	22,760,000	3,690,000	19,530,875	45,980,875
2029-2033	21,210,000	4,740,000	10,018,750	35,968,750
2034-2038	24,340,000	6,085,000	2,847,250	33,272,250
<b>Total</b>	<b>\$ 109,935,000</b>	<b>\$ 21,135,000</b>	<b>\$ 116,268,680</b>	<b>\$ 247,338,680</b>

**University of North Florida Financing Corporation, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008 and 2007**

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**NOTE E - REVENUE BONDS AND NON-CURRENT LIABILITIES (continued)**

Principal and interest repayments on Parking Systems Capital Improvement Revenue Bonds for the next five years and thereafter are as follows:

	University Parking System Series 1994 Principal	Interest*	Total
2009	\$ 300,000	\$ 269,700	\$ 569,700
2010	400,000	261,000	661,000
2011	400,000	249,400	649,400
2012	400,000	237,800	637,800
2013	400,000	226,200	626,200
2014-2018	2,400,000	939,600	3,339,600
2019-2023	2,500,000	580,000	3,080,000
2024-2028	2,500,000	217,500	2,717,500
<b>Total</b>	<b>\$ 9,300,000</b>	<b>\$ 2,981,200</b>	<b>\$ 12,281,200</b>

\* Interest is estimated based on the effective rate maximum of 5.35%.

The housing and student union capital improvement revenue bonds were issued in June 2007. The parking system bonds were assigned in September 2007.

Interest payments on the housing and student union capital improvement revenue bonds are due in November and May of each year. The bonds are fixed rate instruments with rates over the 30 year term that range from 4.0% - 5.0%. The maturity date of the Series 2007 bonds is November 1, 2037.

The University of North Florida Foundation, Inc. issued \$11,700,000 of Parking System Capital Improvement Revenue Bonds (the Parking Bonds) on April 30, 1998. The Parking Bonds were assigned to the Financing Corporation from the University of North Florida Foundation, Inc. in September 2007. The assignment included the principal amount of \$9,600,000 along with unamortized deferred bond issuance costs of \$78,000. The Parking Bonds are collateralized by the revenue stream from the parking system at the University. The interest rate is a variable rate not to exceed 12%. At June 30, 2008, the variable rate was 2.90%. Interest payments are made monthly. Principal is payable in annual installments through the maturity date of May 1, 2028. The balance outstanding at June 30, 2008 was \$9,300,000.

The Parking Systems net book value of land improvements, buildings and other related capital assets (\$11,003,000) and the funds on deposit for debt service payments (\$7,800,000) were transferred directly from UNFF to the University on September 4, 2007.

**University of North Florida Financing Corporation, Inc.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008 and 2007**

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**NOTE E - REVENUE BONDS AND NON-CURRENT LIABILITIES (continued)**

Management used an interest rate swap agreement during 2007 for \$9,600,000 of Parking Bonds payable, primarily as a hedge against interest exposure of its variable rate bonds. This agreement effectively limited the interest rate exposure to a fixed 5.35%. The interest rate swap agreement matured on July 1, 2008 and was not renewed. There was no asset or liability recorded since the derivative matured immediately after year end.

The covenants of the Parking Bonds require parking revenues sufficient to pay 100% of the costs of operation and maintenance of the facility plus 125% of debt service during each year.

Revenue bonds and non-current liabilities activity for the year ended June 30, 2007 is presented below:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
Year ended					
June 30, 2007:					
Student Union capital improvement revenue bonds	\$ -	21,235,000	\$ -	\$ 21,235,000	\$ -
Student housing capital improvement revenue bonds	-	111,185,000	-	111,185,000	1,250,000
Student housing premium on revenue bonds	-	3,449,647	-	3,449,647	-
Student housing premium on revenue bonds	-	367,574	-	367,574	-
Total	<u>\$ -</u>	<u>\$ 136,237,221</u>	<u>\$ -</u>	<u>\$ 136,237,221</u>	<u>\$ 1,250,000</u>

See related party transactions for information on Notes Payable - UNF.

**NOTE F - OPERATING LEASE COMMITMENTS**

*Ground Sublease Agreement*

The Financing Corporation (sublessee) has agreed to prepay to the University (sublessor) approximately \$90.5 million for rental of both the housing and student union facilities. As payments are made in accordance with the bond documents, a resulting prepaid rent will be recorded and amortized on a straight-line basis over the lease term.

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

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**NOTE F - OPERATING LEASE COMMITMENTS (continued)**

*Operating Lease Agreement*

In accordance with the Operating Lease Agreement, the University has agreed to pay all debt payments, including principal and interest over the lease term in accordance with the related bond documents.

The lease agreements are in connection with the issuance of capital improvement revenue bonds as disclosed in Note E. The lease inception date was June 1, 2007 with an expiration date that coincides with the maturities of the bonds (November 1, 2037).

Operating and ground leases for Parking System were assigned in September 2007.

Semi-annual periodic payments are required in accordance with the bond documents. The payments will be on a similar schedule to the principal and interest payments for the capital improvement revenue bonds. In addition, the lessee is responsible for other operating costs that may be incurred by the financing corporation.

**NOTE G - NET ASSET DEFICIT POSITION**

The Financing Corporation is currently in a significant net deficit position at (\$45,000,000) and (\$34,000,000) at June 30, 2008 and 2007 respectively. The deficits resulted from the transfer of debt for student housing and the assignment of the university parking systems revenue bonds to the financing corporation from their affiliate, University of North Florida Foundation. The assets which were secured by the debt were transferred to the University which resulted in an unfavorable transaction for the Financing Corporation. The purpose of the Financing Corporation is to support the mission of the University, therefore, the results of operations were anticipated. In addition, the operating lease payments over the lease term will eventually result in net revenue which will offset the deficit at the bond maturity date.

**NOTE H - RECLASSIFICATIONS**

Certain amounts as of and for the year ended June 30, 2008 have been reclassified in the comparative financial statements to be comparable to the presentation for the year ended June 30, 2008. These reclassifications had no effect on net income.

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**SUPPLEMENTAL INFORMATION**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

The Board Members  
The University of North Florida  
Financing Corporation, Inc.

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We have audited the special-purpose financial statements of The University of North Florida Financing Corporation, Inc. (the Financing Corporation) as of and for the year ended June 30, 2008, which collectively comprise the Financing Corporation's basic financial statements and have issued our report thereon dated August 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Financing Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Financing Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Financing 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 Financing Corporation'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 Financing Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Financing Corporation'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 Financing Corporation'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 Financing Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of special-purpose 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 Members, management of the Financing Corporation and University of North Florida, and is not intended to be and should not be used by anyone other than these specified parties.

August 29, 2008  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

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## MANAGEMENT LETTER

The Board Members  
The University of North Florida  
Financing Corporation, Inc.

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We have audited the financial statements of The University of North Florida Financing Corporation, Inc. as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated August 29, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters. Disclosures in that report, which is dated August 29, 2008, should be considered in conjunction with this management letter.

There were no matters, based on our professional judgment, that were inconsequential to the financial statements considering both quantitative and qualitative factors, including the following:

- a. Violations of laws, rules, regulations, and contractual provisions, or abuse that: (1) have occurred, or are likely to have occurred; and (2) were discovered within the scope of the financial audit.
- b. Improper or illegal expenditures discovered within the scope of the financial audit.

We noted the following deficiencies in internal control of inconsequential effect in relation to the financial statements and have provided other recommendations to improve present financial management, accounting procedures, and internal controls.

### 08-01 Enhanced Procedures for Review of Bank Statements and Canceled Checks

Although the size of the Financing Corporation's office staff is adequate for separation of duties, we believe certain steps could be taken to enhance the operations account bank reconciliation procedures.

We suggest that the Treasurer/Vice President of Administration and Finance receive and review the unopened bank statements and canceled checks before forwarding them to the Accounting Department for the senior accountant to prepare the bank reconciliation. The bank statements and canceled checks should be reviewed for any unusual items or endorsements. After the review is completed, the statements should be initialed and dated to provide support that a review was completed.

This management letter is intended solely for the information and use of the board members, management, and the regulatory agencies of state governments, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

August 29, 2008  
Melbourne, Florida

*Berman Hopkins Wright & LaHam*  
*CPAs and Associates, LLP*

PRELIMINARY DRAFT  
For review purposes only