

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

**Financial Statements and
Supplemental Information**

June 30, 2009 and 2008

BERMAN HOPKINS
WRIGHT & LAHAM
CPAS AND ASSOCIATES, LLP

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INDEPENDENT AUDITORS' REPORT

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



We have audited the accompanying 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, 2009 and 2008, 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.

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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.

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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, 2009 and 2008, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2009, 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 should be considered in assessing the results of our audit.

www.bermanhopkins.com

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.

September 14, 2009
Melbourne, Florida

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

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 years ended June 30, 2009 and 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 for statements 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:

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

2009

- *The Financing Corporation's* year was spent actively monitoring the construction funds for the completion of the Student Union and Student Housing projects; assuring payment of bond obligations and debt service; and in its investments.
- *The Student Union.* By fiscal year end June 30, the building was partially completed and occupied by the following offices: the Student Government Offices, the UNF Bookstore, a bank, the Office of the Vice President for Student & International Affairs and other offices, student study areas and the Boathouse restaurant. The official opening will occur in August 2009. In fiscal year 2009, all debt service payments were made and debt service is current.
- *The Student Housing ("Osprey Fountains")* is on track to open on schedule in August 2009. In fiscal 2009, the principal payment of \$1,040,000 and other debt service obligations were made and debt service is current.
- *Parking System Capital Improvement Revenue Bonds (Series 1998)* In fiscal 2009, the principal payment of \$300,000 and other debt service obligations were made and debt service is current.

- *Guarantee Insurance Agent* The Financing Corporation changed their agent in 2009 to MBIA due to a downgrade of their former agent in fiscal year 2008. As a condition of the downgrading in 2008, the Financing Corporation's Board approved a receipt of a loan of \$9,600,000 from the UNF Board of Trustees to establish a cash reserve fund as required under the trust indenture. In fiscal 2009, the \$9,600,000 remains invested with unrealized appreciation of approximately \$164,000.
- *Parking System - the Letter of Credit (LOC) and Reimbursement Agreement* was approved for a one year renewal by the Board in May 2009. The LOC commission will be at the rate of 1.10% basis points per annum on the average daily available amount, which will be paid quarterly.
- *Investments:* As both projects neared completion by the end of fiscal year 2009, the bond proceeds for construction of the Student Union and Student Housing were reduced from approximately \$81,212,000 to \$5,538,966 in Housing and \$0 in Student Union.
- *Net Assets (Deficit)* at June 30, 2009 totaled (\$46,396,000) million, which was an increase of 2.4% or approximately \$1,074,000 million. The changes in asset balances is attributed to an increase in cash (\$4,684), prepaid rent (\$59.4 million), construction in progress (\$4.513 million) and offset by the reductions of construction funds -\$63.0 million and scheduled bond amortization -\$58,897. The changes in liability balances is attributed to an increase in accounts payable primarily for the reimbursement for construction material (\$1.966 million) purchased by the University, and additional \$509,000 in accounts payable, current liabilities (\$500,000), which was offset by the reductions for the amounts moved from non-current liabilities (\$1.840) to current liabilities and bond premium amortization -\$127,240.

2008

- In fiscal 2008, *The Financing Corporation* administered the construction funds from the proceeds of the two revenue bonds for the Student Union and Student Housing projects; accepted the assignment of the Parking System Capital Improvement Revenue Bonds from the UNF Foundation; completed a Memorandum of Understanding with the University of North Florida, and experienced market volatility both with its guarantee insurance agent and in its investments.
- The Student Housing ("Osprey Fountains") and the Student Union construction projects were 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 was 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 Bonds' 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 Pool (LGIP), 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.

- *Net Assets (Deficit)* at June 30, 2008 totaled (\$45,322,000), which was an increase of 31.6% or (\$10,881,000). The majority of the increase in the deficit comes from the addition of the Parking Systems Capital Improvement Revenue Bonds.

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 (in thousands),						
	2009	2008	Increase (decrease)	Change	2007	Increase (decrease)	Change
Assets:							
Current assets	\$ 73	\$ 64	\$ 9	14.1%	\$ 8	\$ 56	696.3%
Noncurrent assets	110,433	110,502	(69)	-0.1%	102,065	8,437	8.3%
Total assets	110,506	110,566	(60)	-0.1%	102,073	8,493	8.3%
Liabilities:							
Current liabilities	6,436	3,455	2,981	86.3%	1,527	1,928	126.3%
Non-current liabilities	150,466	152,433	(1,967)	-1.3%	134,987	17,446	12.9%
Total liabilities	156,902	155,888	1,014	0.7%	136,514	19,374	14.2%
Net assets:							
Unrestricted net assets (deficit)	(46,396)	(45,322)	(1,074)	2.4%	(34,441)	(10,881)	31.6%
Total liabilities and net assets (deficit)	\$ 110,506	\$ 110,566	\$ (60)	-0.1%	\$ 102,073	\$ 8,493	8.3%

The Balance Sheets are presented as part of the basic financial statements. For fiscal year ended June 30, 2009, the total assets were \$110.506 million. This year's activity included the following:

Current Assets

2009

- *Current assets* totaled approximately \$73,000. At fiscal year end the funds remaining on deposit consisted of cash transferred from the Foundation for the Parking System (approximately \$29,000) and administrative funds (\$35,000) from the University for administering the Student Housing and Student Union bond funds, and a prepaid expense (\$8,623 - the July portion of the Letter of Credit fee).

2008

- In fiscal 2008, current assets totaled approximately \$64,000. The funds were transferred from the Foundation for the Parking System and the annual administrative funds from the University for administering the Student Housing and Student Union bond funds.

Non-Current Assets

2009

- In fiscal 2009, *non-current assets* totaled \$110.433 million, which is a decrease of \$69.171 million or -0.1%. This represents the net of the funds advanced to the University as prepaid rent (approximately \$59.4 million) for the Student Housing and the Student Union projects and the corresponding reduction in bond proceeds (approximately \$63.9 million), the construction in progress due to UNF at the end of the projects for net capitalized interest (approximately \$4.513 million), and a decrease in deferred bond issuance costs of approximately \$59,000.

2008

- The *non-current assets* in fiscal 2008 were \$110.502 million, which was an increase of \$8.437 million or 8.3%. The increase was attributed primarily to the net of funds advanced to the University as prepaid rent for the Student Housing and the Student Union projects in fiscal 2008 and corresponding reduction in bond proceeds (\$4.577 million), and the construction in progress due to UNF at the end of the projects for capitalized interest (\$3.723 million).

Total Assets

2009

- *Total assets* remained at approximately the same as FY2008 at \$110.506 million. There was a net decrease of approximately \$60,000 or -0.1%.

2008

- The total assets were \$110.566 million, which was an increase of \$8.493 million or 8.3%.

Liabilities

2009

- *Current liabilities* totaled \$6.436 million, which is an increase of \$2.981 million or 86.3%. The increase is attributed to an increase of approximately \$509,000 in accounts payable to the University primarily from interest earned on construction funds and for reimbursement from construction funds for materials purchased by the University of approximately \$1,966,000, a net increase in the current portion of bond principal payments due \$500,000 and an increase in deferred revenue \$5,628.
- *In fiscal 2009, non-current liabilities* decreased by \$1.967 million, or -1.3%. The decrease is attributed to the reduction in the non-current portion of the Capital Revenue Bonds of approximately \$1,840,000 and a decrease in the amount of unamortized premium on the bonds of \$127,240.

2008

- *Current liabilities* increased by \$1.928 million. The increase was attributed to a net 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 offset by a decrease in deferred revenue (\$248,519).
- *In fiscal 2008, non-current liabilities* totaled approximately \$152.433 million, an increase of \$17.446 million or 12.9%. 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.

Net Assets (Deficit)

2009

- The net deficit at June 30, 2009, totaled (\$46.396 million).
- The Net Assets section of the Balance Sheet provides one classification since a deficit position existed at June 30, 2009 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.

2008

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

Statement of Revenues, Expenses, and Changes in Net Assets (continued)

	For the year ended June 30 (in thousands),						
	2009	2008	Increase (decrease)	Change	2007	Increase (decrease)	Change
Operating revenue	\$ 3,568	\$ 3,220	\$ 348	10.8%	\$ -	\$ 3,220	-
Operating expenses	4,806	4,580	226	4.9%	255	4,325	1696.1%
Operating Loss	(1,238)	(1,360)	122	-9.0%	(255)	(1,105)	433.3%
Non-operating revenue and transfers:							
Non-operating income	165	1	164	16858.8%	2	(1)	-51.5%
Grant	-	-	-	-	8	(8)	-100.0%
Total non-operating revenue	165	1	164	16858.8%	10	(9)	-90.3%
Assignment of Parking Capital Improvement Revenue Bonds	-	(9,522)	9,522	1	-	(9,522)	-
Transfer of Student Housing Capital Improvement Revenue Bonds	-	-	-	-	(34,200)	34,200	-100.0%
Change in net assets	(1,073)	(10,881)	9,808	-90.1%	(34,445)	23,564	-68.4%
Net assets (deficit), beginning of year	(45,322)	(34,441)	(10,881)	31.6%	4	(34,445)	-861125.0%
Net assets (deficit), end of year	\$ (46,396)	\$ (45,322)	\$ (1,073)	2.4%	\$ (34,441)	\$ (10,881)	31.6%

The Statements of Revenues, Expenses, and Changes in Net Assets are presented as part of the basic financial statements. For fiscal year ended June 30, 2009, the Financing Corporation's net deficit totaled (\$46.396) million. The Statements' highlights are as follows:

Operating Revenues

2009

- *Operating revenues* totaled \$3.568 million, which is an increase of approximately \$348,000, or 10.8%. This represents a combination of lease revenue of approximately \$3.548 million, administrative operating funds received of \$20,000 from the Student Housing and Student Union University Auxiliary accounts, which was offset by a 100% decrease in funds transferred from affiliates for parking operations of approximately \$56,000 in fiscal 2008.

2008

- *Operating revenues* totaled \$3.220 million. This included approximately \$3.145 million in lease revenue, approximately \$56,000 for Parking operations transferred from the Foundation and administrative operating funds received of \$20,000 from the Student Housing and Student Union University Auxiliary accounts.

Operating Expenses

2009

- *Operating expenses* totaled \$4.806 million, which is an increase of approximately \$226,000 or 4.9%.

- *Program expenses* totaled \$316. The expenses included bank fees, meeting expenses, and other annual filing fees.
- *Professional fees* totaled \$70,921. The increase of approximately \$18,000 from fiscal year 2008 (\$52,664) is attributed to expenses associated with the Financing Corporation's fees relating to the Bonds (e.g. rating, remarketing, trustee, etc.)
- *Expenses associated with student housing and student union* of approximately \$3 million were for operating lease expenses.
- *Other expenses* totaled \$1.717 million, which included interest expense (\$1.658 million) and scheduled amortization of approximately \$59,000.

2008

- *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) was 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 \$1.508 million, which included interest expense (\$1.450 million) and scheduled amortization of approximately \$58,000.

Non-operating Revenues (Expenses)

2009

- In fiscal year 2009, the *non-operating revenues* were approximately \$165,000, which represents the appreciation on investments for the debt service reserve funds of \$9.6 million.

2008

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

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
UNF Hall, Suite 2900
Jacksonville, FL 32224-2648
(904) 620-2790

The University of North Florida Financing Corporation, Inc.

BALANCE SHEETS

June 30,

ASSETS	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	\$ 64,687	\$ 60,003
Prepaid expenses	8,623	2,997
Accounts receivable from affiliate (UNF)	-	756
Total current assets	<u>73,310</u>	<u>63,756</u>
NON-CURRENT ASSETS		
Restricted investments:		
Student Housing	15,807,963	70,492,517
Student Union	1,460,660	10,719,362
Prepaid rent	83,312,648	23,893,105
Due to UNF - Construction in progress	8,236,891	3,723,452
Deferred bond issuance costs, net	1,614,827	1,673,724
Total non-current assets	<u>110,432,989</u>	<u>110,502,160</u>
Total assets	<u>\$ 110,506,299</u>	<u>\$ 110,565,916</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable to affiliate (UNF)	\$ 4,587,476	\$ 2,112,230
Deferred revenue	8,623	2,995
Current portion of Student Housing Capital Improvement Revenue Bonds	1,080,000	1,040,000
Current portion of Student Union Capital Improvement Revenue Bonds	360,000	-
Current portion of Parking System Capital Improvement Revenue Bonds	400,000	300,000
Total current liabilities	<u>6,436,099</u>	<u>3,455,225</u>
NON-CURRENT LIABILITIES		
Student Housing Capital Improvement Revenue Bonds	107,815,000	108,895,000
Student Union Capital Improvement Revenue Bonds	20,875,000	21,235,000
Parking Systems Capital Improvement Revenue Bonds	8,600,000	9,000,000
Student Housing - Premium on Revenue Bonds	3,219,671	3,334,659
Student Union - Premium on Revenue Bonds	343,069	355,321
Notes payable - UNF	9,613,000	9,613,000
Total non-current liabilities	<u>150,465,740</u>	<u>152,432,980</u>
Total liabilities	<u>156,901,839</u>	<u>155,888,205</u>
NET ASSETS (DEFICIT)		
Unrestricted	<u>(46,395,540)</u>	<u>(45,322,289)</u>
Total liabilities and net assets (deficit)	<u>\$ 110,506,299</u>	<u>\$ 110,565,916</u>

The accompanying notes are an integral part of these financial statements.

The University of North Florida Financing Corporation, Inc.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years ended June 30,

	2009	2008
OPERATING REVENUE		
Lease revenue	\$ 3,547,933	\$ 3,144,695
Transfer from affiliate (UNFF) for parking operations	-	55,539
Miscellaneous revenue	20,000	20,000
Total operating revenue	3,567,933	3,220,234
OPERATING EXPENSES		
Program expenses	316	344
Professional fees	70,921	52,664
Expense associated with Student Housing and Student Union operating leases	3,018,194	3,018,194
Total operating expenses	3,089,431	3,071,202
Other expenses:		
Interest expense	1,657,870	1,450,113
Amortization	58,897	58,274
	1,716,767	1,508,387
Total expenses	4,806,198	4,579,589
OPERATING LOSS	(1,238,265)	(1,359,355)
NON-OPERATING REVENUES AND TRANSFERS		
Interest and dividends	556	976
Net appreciation of investments	164,458	-
Total non-operating revenues	165,014	976
Assignment of Parking System Capital Improvement Revenue Bonds to Financing Corporation	-	(9,522,701)
Change in net assets	(1,073,251)	(10,881,080)
Net assets (deficit), beginning of year	(45,322,289)	(34,441,209)
Net assets (deficit), end of year	\$ (46,395,540)	\$ (45,322,289)

The accompanying notes are an integral part of these financial statements.

The University of North Florida Financing Corporation, Inc.

STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2009</u>	<u>2008</u>
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Transfer from affiliate (UNFF) for parking operations	\$ -	\$ 55,539
Miscellaneous revenue	20,000	20,000
Payments to suppliers for goods and services	(15,316)	(21,480)
Net cash provided by operating activities	<u>4,684</u>	<u>54,059</u>
CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES		
Deposits to restricted investments through UNF transfers	508,883	15,625,425
Transfers to UNF for SBA penalties	-	(960,763)
Interest paid on Capital Improvement Revenue Bonds	(6,564,084)	(6,700,721)
Payments from restricted investments for construction costs	(64,204,310)	(27,162,815)
Payments for deferred bond issuance costs	-	(117,281)
Net cash used in capital and related financing activities	<u>(70,259,511)</u>	<u>(19,316,155)</u>
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Interest earned on restricted investments	769,937	3,427,808
Purchase of restricted investments	(769,937)	(3,427,808)
Proceeds from the sale of restricted investments for construction costs	70,259,511	19,316,155
Net cash provided by investing activities	<u>70,259,511</u>	<u>19,316,155</u>
Net increase in cash and cash equivalents	4,684	54,059
Cash and cash equivalents, beginning of year	60,003	5,944
Cash and cash equivalents, end of year	<u>\$ 64,687</u>	<u>\$ 60,003</u>
Reconciliation of operating expenses to net cash provided by (used in) operating activities:		
Operating loss	\$ (1,238,265)	\$ (1,359,355)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Amortization of bond issuance costs	58,897	58,274
Lease revenue recorded for bond reimbursement agreement	(3,542,305)	(2,896,174)
Amortization of prepaid rent for operating lease agreement with University of North Florida	3,018,194	3,018,194
Interest expense paid directly by University of North Florida	1,530,630	1,322,872
Amortization of premium on Revenue Bonds included as part of interest expense	127,241	127,241
Changes in assets and liabilities:		
Prepaid expenses	(5,626)	(2,997)
Accounts receivable	756	2,000
Accounts payable to affiliate (UNF)	49,534	32,525
Deferred revenue	5,628	(248,521)
Net cash provided by (used in) operating activities	<u>\$ 4,684</u>	<u>\$ 54,059</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:		
Assignment of Parking System Capital Improvement Revenue Bonds from University of North Florida Foundation, Inc. to Financing Corporation	<u>\$ -</u>	<u>\$ 9,600,000</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH OPERATING ACTIVITIES:		
Lease revenue recorded for bond reimbursement agreement	<u>\$ 3,547,933</u>	<u>\$ 3,144,695</u>
Amortization of prepaid rent for operating lease agreement with University of North Florida	<u>\$ 2,968,660</u>	<u>\$ 2,985,669</u>
Accounts payable to affiliate - UNF	<u>\$ 4,537,942</u>	<u>\$ 2,079,705</u>
Due to UNF - Construction in progress (Capitalized interest and interest income)	<u>\$ 8,236,891</u>	<u>\$ 3,723,452</u>

The accompanying notes are an integral part of these financial statements.

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

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.

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

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.

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.

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Budgeting procedures (continued)

- 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 and cash on deposit.

6. Restricted investments

Restricted investments were established with the proceeds from the Capital Improvement Revenue Bonds. These funds were substantially utilized to finance the construction of various construction projects in fiscal 2009. The remainder will be utilized 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 \$117,171 and \$58,274 for the years ended June 30, 2009 and 2008 respectively.

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.

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 years ended June 30, 2009 and 2008, \$114,988 was amortized for the premium on Student Housing and \$12,252 for Student Union for both years.

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 \$165,014 and \$976 for June 30, 2009 and 2008, respectively. Operating lease revenue totaled \$3,547,933 and \$3,144,695, June 30, 2009 and 2008, 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.

The Financing Corporation has followed the provisions of FSP FIN 48-3, which delays the implementation of FIN 48, "Accounting for Income Taxes." The Organization will be required to implement those provisions for its year ending June 30, 2010. The Company uses the FAS 5, "Loss Contingencies" approach for evaluating uncertain tax positions and continually evaluates tax status, changes in tax laws, and any authoritative rulings.

12. Revenue recognition

There were no grants received for fiscal years ended June 30, 2009 and 2008.

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents

As of June 30, 2009 and 2008, cash and cash equivalents consisted of a bank demand account subject to immediate withdrawal.

	<u>2009</u>	<u>2008</u>
Cash	<u>\$ 64,687</u>	<u>\$ 60,003</u>

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

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

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, 2009, the Financing's unrestricted cash deposits with financial institutions were approximately \$64,000 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, 2009 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.

Investments are stated at fair value based on quoted market prices at June 30, 2009.

Interest earned on construction funds was \$508,612 and \$2,112,230 for June 30, 2009 and 2008 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, 2009, the Financing Corporation held securities with maturities of less than three months. The quality ratings assigned by Standard & Poor's Ratings Group and Moody's Investor Services, Inc. are as follows:

Investment Type	Fair Value	Quality Rating		Unrated
		AAA	AA	
U.S. Government and agency securities	\$ 5,779,076	\$ 5,779,076	\$ -	\$ -
U.S. Treasury notes	2,752,262	2,752,262	-	-
Fixed income mutual funds	8,737,285	8,737,285	-	-
Total	17,268,623	17,268,623	-	-

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. All investments have maturities of less than 90 days and are considered liquid as of June 30, 2009.

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

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

Income on investments. The following summarizes net appreciation in investments for the years ended June 30, 2009 and 2008:

	2009	2008	Increase (decrease)	Change
Net unrealized and realized gains	\$ 164,458	\$ -	\$ 164,458	-
Dividends and interest	556	976	(420)	-43.0%
Total	<u>\$ 165,014</u>	<u>\$ 976</u>	<u>\$ 164,038</u>	<u>16807.2%</u>

NOTE C - FAIR VALUE MEASUREMENTS

The Financing Corporation has provided additional information about fair value measurements which is based on the assumptions that market participants would use when pricing an asset or liability. A fair value hierarchy was established that prioritizes the information used to develop these assumptions. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Financing Corporation has the ability to access at the measurement date;
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3 Inputs that are unobservable.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. The Financing Corporation uses the market approach valuation technique to value its investments.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the unobservable inputs.

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE C - FAIR VALUE MEASUREMENTS (continued)

Following is a description of the valuation methodologies use for assets measured at fair value.

Level 1 Fair Value Measurements

The fair value of mutual funds is based on quoted net asset values of the shares held by the Financing Corporation at year-end. The fair values of U.S. Government securities and U.S. Treasury notes are based on quoted market prices.

The following table presents the investments carried on the statement of assets and liabilities by level within the valuation hierarchy as of June 30, 2009.

	Assets at Fair Value as of June 30, 2009			
	Level 1	Level 2	Level 3	Total
U.S. Government and agency securities	\$ 5,779,076	\$ -	\$ -	\$ 5,779,076
U.S. Treasury notes	2,752,262	-	-	2,752,262
Fixed income mutual funds	8,737,285	-	-	8,737,285
Total	<u>\$ 17,268,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$17,268,623</u>

NOTE D - 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 G for operating lease commitments with the University of North Florida.

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE E - SEGMENT INFORMATION

The Financing Corporation has issued separate revenue bonds to finance Housing and Student Union, and accepted assignment of the 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.

Summary financial information for each segment is presented below as of and for the years ended June 30, 2009 and 2008 respectively.

Condensed Balance Sheets			
	Student Union	Student Housing	University Parking Services
As of June 30, 2009			
Assets:			
Current assets	\$ -	\$ -	\$ 38,038
Non-current assets	3,230,091	22,275,423	-
Prepaid rent	19,079,515	64,233,133	-
Bond issue costs, net	251,678	1,292,706	70,442
Total assets	\$ 22,561,284	\$ 87,801,262	\$ 108,480
Liabilities:			
Current liabilities	\$ 805,810	\$ 5,221,666	\$ 408,623
Non-current liabilities	22,625,069	119,240,671	8,600,000
Total liabilities	23,430,879	124,462,337	9,008,623
Net assets (deficit):			
Unrestricted	(869,595)	(36,661,075)	(8,900,143)
Total liabilities and net assets (deficit)	\$ 22,561,284	\$ 87,801,262	\$ 108,480

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE E - SEGMENT INFORMATION (continued)

Condensed Balance Sheets			
	Student Union	Student Housing	University Parking Services
As of June 30, 2008			
Assets:			
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
Total assets	<u>\$ 22,674,442</u>	<u>\$ 87,754,293</u>	<u>\$ 116,594</u>
Liabilities:			
Current liabilities	\$ 409,081	\$ 1,703,148	\$ 2,997
Non-current liabilities	22,997,322	121,475,659	9,300,000
Total liabilities	23,406,403	123,178,807	9,302,997
Net assets (deficit):			
Unrestricted	(731,961)	(35,424,514)	(9,186,403)
Total liabilities and net assets (deficit)	<u>\$ 22,674,442</u>	<u>\$ 87,754,293</u>	<u>\$ 116,594</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets			
	Student Union	Student Housing	University Parking Services
For the year ended June 30, 2009			
Operating revenue	\$ 514,721	\$ 2,567,260	\$ 465,981
Operating expenses	676,355	3,944,807	179,721
Non-operating revenues and transfers:			
Non-operating revenues	24,000	140,986	-
Change in net assets	(137,634)	(1,236,561)	286,260
Beginning net assets (deficit)	(731,961)	(35,424,514)	(9,186,403)
Ending net assets (deficit)	<u>\$ (869,595)</u>	<u>\$ (36,661,075)</u>	<u>\$ (8,900,143)</u>

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE E - 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	676,354	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	(676,354)	(1,031,033)	(9,186,403)
Beginning net assets	(55,607)	(34,393,481)	-
Ending net assets (deficit)	\$ (731,961)	\$ (35,424,514)	\$ (9,186,403)

Condensed Statement of Cash Flows			
	Student Union	Student Housing	University Parking Services
For the year ended June 30, 2009			
Net cash provided by (used in):			
Capital and related financing activities	\$ (8,284,730)	\$ (50,105,087)	\$ (300,000)
Investing activities	8,284,730	50,105,087	300,000
Cash and cash equivalents, beginning of year	-	-	-
Cash and cash equivalents, end of year	\$ -	\$ -	\$ -

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE E - 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	\$ (10,919,760)	\$ (8,196,754)	\$ -
Investing activities	10,919,760	8,196,754	-
Cash and cash equivalents, beginning of year	-	-	-
Cash and cash equivalents, end of year	\$ -	\$ -	\$ -

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

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE F - REVENUE BONDS AND NON-CURRENT LIABILITIES

Revenue bonds and non-current liabilities activity for the year ended June 30, 2009 is presented below:

Year ended	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
June 30, 2009:					
Student Union capital improvement revenue bonds	\$ 21,235,000	\$ -	\$ -	\$ 21,235,000	\$ 360,000
Student housing capital improvement revenue bonds	109,935,000	-	1,040,000	108,895,000	1,080,000
Parking systems capital improvement revenue bonds	9,300,000	-	300,000	9,000,000	400,000
Student housing premium on revenue bonds	3,334,659	-	114,988	3,219,671	114,988
Student union premium on revenue bonds	355,321	-	12,252	343,069	12,252
Note payable - UNF	9,613,000	-	-	9,613,000	-
Total	\$ 153,772,980	\$ -	\$ 1,467,240	\$ 152,305,740	\$ 1,967,240

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

Fiscal Year	Housing Project	Student Union Project	Interest	Total
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	6,200,463	8,240,463
2014	2,115,000	425,000	6,090,138	8,630,138
2015-2019	16,510,000	2,405,000	27,965,059	46,880,059
2020-2024	21,720,000	3,020,000	22,557,453	47,297,453
2025-2029	22,105,000	3,880,000	16,045,875	42,030,875
2030-2034	21,470,000	4,985,000	9,549,375	36,004,375
2035-2038	19,945,000	4,985,000	2,570,500	27,500,500
Total	\$ 108,895,000	\$ 21,235,000	\$ 110,008,618	\$ 240,138,618

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE F - 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
2010	\$	400,000	\$ 267,300	\$ 667,300
2011		400,000	255,420	655,420
2012		400,000	243,540	643,540
2013		400,000	231,660	631,660
2014		400,000	219,780	619,780
2015-2019		2,500,000	891,000	3,391,000
2020-2024		2,500,000	519,750	3,019,750
2025-2028		2,000,000	148,500	2,148,500
Total	\$	<u>9,000,000</u>	<u>\$ 2,776,950</u>	<u>\$ 11,776,950</u>

* Variable rate interest is based on the effective rate of 2.97%

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, and secured by a direct pay letter of credit (LOC) issued by Wachovia Bank. The LOC commission will be at the rate of 1.10% basis points per annum on the average daily available amount, which will be paid quarterly. The interest rate is a variable rate not to exceed 12%, as determined by the Remarketing Agent. At June 30, 2009, the variable rate was 0.297%. 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, 2009 was \$9,000,000.

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.

University of North Florida Financing Corporation, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009 and 2008

NOTE G - 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.

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 for Student Housing and Student Union in accordance with the bond documents and annual payment for Parking. 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 H - NET ASSET (DEFICIT) POSITION

The Financing Corporation is currently in a significant net deficit position at (\$46) million and (\$45) million at June 30, 2009 and 2008 respectively. 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 I - 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, 2009. These reclassifications had no effect on net income.

**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**

To the Board of Directors
The University of North Florida
Financing Corporation, Inc.



8035 Spyglass Hill Road
Melbourne, FL 32940
321.757.2020
FAX 321.242.4844

We have audited the financial statements of The University of North Florida Financing Corporation, Inc. (the Financing Corporation) as of and for the year ended June 30, 2009, as listed in the table of contents and have issued our report thereon dated September 14, 2009. 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

480 N. Orlando Ave.
Suite 218
Winter Park, FL 32789
407.644.5811
FAX 407.644.6022

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.

301 Clematis Street
Suite 3000
W. Palm Beach, FL 33401
561-837-6627
FAX 561-837-6632

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.

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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 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, 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.

September 14, 2009
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

MANAGEMENT LETTER

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



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, 2009, and have issued our report thereon dated September 14, 2009.

8035 Spyglass Hill Road
Melbourne, FL 32940
321.757.2020
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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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting. Disclosures in that report, which is dated September 14, 2009, should be considered in conjunction with this management letter.

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Additionally, our audit was conducted in accordance with Chapter 10.650, Rules of the Auditor General, which requires disclosure in the management letter of violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement or State project amounts that is less than material but more than inconsequential. In addition, for matters that are inconsequential to the determination of financial statement or State project amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:

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1. violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and
2. control deficiencies that are not significant deficiencies, including, but not limited to:
 - a. improper or inadequate accounting procedures (e.g. the omission of required disclosures from the annual financial statements);
 - b. failures to properly record financial transactions; and
 - c. inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

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Our audit disclosed the following matters required to be disclosed:

Prior Year Findings and Recommendations

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 Treasure/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.

Management's Response

We agree with the recommendation above and will implement during the current fiscal year.

As of June 30, 2009, this issue has been resolved.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of board members, management, the Florida Auditor General, 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.

September 14, 2009
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP