KPMG

USF FINANCING CORPORATION AND USF PROPERTY CORPORATION

Consolidated Financial Statements

June 30, 2014 and 2013

(With Report of Independent Auditors' Thereon)

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KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Independent Auditors' Report

The Board of Directors
USF Financing Corporation and USF Property Corporation:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the USF Financing Corporation and USF Property Corporation (collectively the Corporation), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

The accompanying consolidated financial statements of the USF Financing Corporation and USF Property Corporation as of June 30, 2013, and for the year then ended were audited by other auditors whose report thereon dated October 14, 2013, expressed an unmodified opinion one those financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

KPMG LLP

October 15, 2014
Certified Public Accountants

USF FINANCING CORPORATION AND
USF PROPERTY CORPORATION

Consolidated Statements of Financial Position

June 30, 2014 and 2013

Assets		**2014**	**2013**
Cash	$	2,641	2,641
Restricted cash and cash equivalents		25,852,776	23,856,264
Due from University of South Florida		43,961,210	27,386,266
Due from Medical Services Support Corporation		3,064,824	5,029,480
Accounts receivable		801	465
Equity investment		(207,632)	(249,110)
Security pledged to counterparty		6,970,000	8,300,000
Deferred charges, net of accumulated amortization of $2,171,068 and $2,088,809, respectively		1,288,670	1,516,391
Construction in progress		287,972	1,156,842
Capital assets, net of accumulated depreciation of $47,159,430 and $37,779,253, respectively		318,489,728	326,550,538
Total assets	$	399,710,990	393,549,777
Liabilities and Net Deficit			
Liabilities:			
Accounts payable	$	1,000	549,560
Interest payable		5,972,825	6,007,307
Due to Health Professions Conferencing Corporation		320,382	301,941
Interest rate swaps payable		21,590,640	25,003,411
Long-term notes payable		59,752,048	41,037,600
Certificates of participation payable		312,279,086	320,896,427
Total liabilities		399,915,981	393,796,246
Net deficit:			
Unrestricted net deficit		(204,991)	(246,469)
Total liabilities and net deficit	$	399,710,990	393,549,777

See accompanying notes to consolidated financial statements.

USF FINANCING CORPORATION AND
USF PROPERTY CORPORATION

Consolidated Statements of Activities and Changes in Net Assets

Years ended June 30, 2014 and 2013

		2014	2013
Revenues:			
Operating revenues:			
University of South Florida lease revenue	$	44,329,263	44,441,831
Medical Services Support Corporation lease revenue		4,761,599	4,176,548
Health Professions Conferencing Corporation lease revenue		1,857,139	1,857,017
Total operating revenues		50,948,001	50,475,396
Expenses:			
University of South Florida housing system operating expenses		19,738,499	19,201,426
Management fee		532,004	524,278
Interest expense		15,311,868	14,248,817
Amortization of deferred charges		82,259	96,153
Amortization of deferred charges due to refunding of debt		338,062	938,212
Depreciation expense		9,380,177	9,280,031
General and administrative expenses		621,373	1,376,303
Total expenses		46,004,242	45,665,220
Other revenues (expenses):			
Change in interest in equity investment		41,478	(229,309)
Change in fair value of interest rate swaps		3,412,771	11,063,562
Transfers to affiliates to offset the change in fair value of interest rate swaps and other expenses		(8,361,179)	(15,600,504)
Renewal and replacement expenses		—	(285,067)
Interest income		4,649	6,940
Total other expenses		(4,902,281)	(5,044,378)
Change in unrestricted net assets (deficit)		41,478	(234,202)
Unrestricted net deficit, beginning of year		(246,469)	(12,267)
Unrestricted net deficit, end of year	$	(204,991)	(246,469)

See accompanying notes to consolidated financial statements.

USF FINANCING CORPORATION AND
USF PROPERTY CORPORATION

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

		2014	2013
Operating activities:			
Change in net assets	$	41,478	(234,202)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Amortization of deferred charges		82,259	96,153
Deferred charges written off		338,062	938,212
Depreciation of capital assets		9,380,177	9,280,031
Net amortization of premiums and discounts on certificates of participation		(102,341)	(102,341)
Change in fair value of interest rate swap		(3,412,771)	(11,063,562)
Change in interest in equity investment		(41,478)	229,309
Changes in operating assets and liabilities:			
Due from University of South Florida		(16,574,944)	6,203,758
Due from Medical Services Support Corporation		1,964,656	1,934,902
Accounts receivable		(336)	39
Accounts payable		(548,560)	(3,560,595)
Interest payable		(34,482)	(63,226)
Due to Health Professions Conferencing Corporation		18,441	257,171
Net cash (used in) provided by operating activities		(8,889,839)	3,915,649
Investing activities:			
Capital expenditures		(450,497)	(6,110,135)
Purchases of investments		(108,413,219)	(106,441,777)
Proceeds from sales or maturities of investments		106,416,707	107,840,115
Net cash used in investing activities		(2,447,009)	(4,711,797)
Financing activities:			
Deferred charges on debt issuances		(192,600)	(137,340)
Proceeds from issuances of long-term debt		82,505,000	158,100,000
Principal paid due to refunding of debt		(62,505,000)	(158,100,000)
Principal paid on debt		(9,800,552)	(9,071,405)
Return of security pledged to counterparty		1,330,000	10,000,000
Net cash provided by financing activities		11,336,848	791,255
Change in cash and cash equivalents		—	(4,893)
Cash and cash equivalents, beginning of year		2,641	7,534
Cash and cash equivalents, end of year	$	2,641	2,641
Supplemental cash flow information:			
Interest paid, net of amounts capitalized of $0 and $48,914, respectively	$	15,448,692	13,716,170
Supplemental disclosure of noncash transactions:			
Transfer of furniture, fixtures, and equipment to the University of South Florida	$	—	290,324

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

The Financing Corporation

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

The Property Corporation

USF Property Corporation (the Property Corporation) is a Florida not-for-profit corporation formed for the primary purpose of acting as lessor in connection with "lease purchase" financings in support of the activities and educational purposes of the University and of the Financing Corporation by assisting in acquiring and constructing facilities on the University campus and, in general, furthering the University's educational mission. The Property Corporation was incorporated on February 8, 2005, and began operating on March 10, 2005.

The Property Corporation is managed, its properties controlled, and its affairs governed under the direction of its Board of Directors. The sole member of the Property Corporation is the Financing Corporation.

(b) Consolidated Financial Statements

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

(c) Basis of Presentation

The accompanying consolidated financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, the net assets and changes in net assets are recorded as unrestricted since they are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board

(Continued)

of Directors, or may otherwise be limited by contractual agreements with outside parties. Expenses are reported as decreases in unrestricted net assets.

(d) Cash and Restricted Cash and Cash Equivalents

The Corporation considers all highly liquid investments with original maturities of three months or less when purchased and not restricted for other purposes to be cash. The Corporation considers all cash and highly liquid funds invested in money market funds that are restricted for certain purposes to be restricted cash and cash equivalents. All restricted cash and cash equivalents of the Corporation are held with The Bank of New York Mellon Trust Company, N.A. Trustee (Trustee), Branch Banking & Trust Company (BB&T) and SunTrust Bank, and have been restricted in terms of permitted investments and uses in accordance with the master and supplemental trust agreements between the Trustee and the Financing Corporation and the loan agreements between BB&T and the Financing Corporation and SunTrust Bank and the Financing Corporation (see note 10).

(e) Investment Income

Investment income (including interest and dividends and realized and unrealized gains and losses) is reflected as a component of other revenues (expenses) in the accompanying consolidated statements of activities and changes in net assets. Purchases and sales of investments are reflected on a settlement-date basis, which does not differ materially from the trade-date basis. The cost of investments sold is determined using the specific-identification method.

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

(f) Capitalization of Interest

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

(g) Capital Assets

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

The Corporation depreciates capital assets on a straight-line basis over the estimated useful life of the respective asset. Useful lives range from 20 to 40 years.

(h) Impairment of Long-Lived Assets

The Corporation evaluates the recoverability of its capital assets whenever adverse events or changes in the business climate indicate that the expected undiscounted future cash flows from the related asset may be less than previously anticipated. If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount would be reduced to the present value of its expected future cash flows and an impairment loss would be recognized. No indicators of impairment existed at June 30, 2014 or 2013.

(i) Deferred Charges

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

(j) Income Taxes

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

The Corporation follows Financial Accounting Standards Board Codification Subtopic 740-10 *Income Taxes - Overall* in evaluating and accounting for potential uncertain tax positions. ASC 740-10 prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740-10 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Corporation believes that it has appropriate support for its tax positions taken and, as such, does not have any uncertain tax positions that could result in a material impact to the consolidated financial statements.

(k) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time estimates are made, actual results could differ from those estimates.

(l) Revenue Recognition Policy

The Corporation recognizes revenue as it is earned. Operating revenues are based upon the terms of the Corporation’s trust, lease, and operating and reporting agreements with the University of South Florida, University of South Florida Medical Services Support Corporation, and USF Health Professions Conferencing Corporation (see note 4). Other revenues include the Corporation’s share of the equity investment in INTO USF, Inc. (see note 3), the unrealized gains or losses related to the Corporation’s interest rate swap agreements, and other interest income.

(m) Interest Rate Swaps

The Corporation makes limited use of derivative instruments for the purpose of managing interest rate risk (see note 11). Interest rate swap agreements are used to convert the Corporation’s variable-rate long-term debt to a fixed rate. The fair value of the interest rate swap agreements is recognized in the consolidated statements of financial position and the change in the fair value on the interest rate swap agreements is recognized in the consolidated statements of activities and changes in net assets. Because the Corporation is a not-for-profit entity, it is precluded from applying cash flow hedge accounting. However, the Corporation has elected to report realized gains and losses of amounts received from and paid to the counterparties on its interest rate swaps of $6,805,365 and $6,876,955 for the years ended June 30, 2014 and 2013, respectively, as a component of interest expense, with the remaining change in fair value reported as a component of other revenues (expenses).

(n) Security Pledged to Counterparty

The collateral provisions of the Housing interest rate swap agreements require the Corporation to post collateral in the form of cash or securities if the negative valuation exposure exceeds a specified threshold (see note 11). Pursuant to the Corporation's agreements with the University of South Florida, the University transfers any required collateral to the Corporation, and the Corporation immediately transfers the collateral to the counterparty's custodian.

(2) Cash and Restricted Cash and Cash Equivalents

All restricted cash and cash equivalents of the Corporation are held with The Bank of New York Mellon Trust Company, N.A. as Trustee (Trustee), Branch Banking & Trust Company (BB&T) and SunTrust Bank, and have been restricted in terms of permitted investments and uses in accordance with the master and supplemental trust agreements between the Trustee and the Financing Corporation, and the loan agreements between BB&T and the Financing Corporation and SunTrust Bank and the Financing Corporation (see note 10).

Cash and restricted cash and cash equivalents are carried at fair value and consist of the following:

		June 30			
		2014		2013	
		Cost	Fair value	Cost	Fair value
Cash	$	2,641	2,641	2,641	2,641
Restricted cash and cash equivalents		25,852,776	25,852,776	23,856,264	23,856,264
	$	25,855,417	25,855,417	23,858,905	23,858,905

Investment income is comprised of the following and is recorded in interest income in the consolidated statements of activities and changes in net assets:

		Year ended June 30	
		2014	**2013**
Interest, dividends and gains	$	4,417	6,496
Less net investment income capitalized		—	(21)
Plus net investment income accrued		232	465
Interest income	$	4,649	6,940

(3) Equity Investment

On January 17, 2010, the Financing Corporation entered into a subscription agreement with INTO USF, Inc. (INTO USF), a Florida for-profit corporation, whereby the Financing Corporation subscribed for and offered to purchase 500 shares of common stock of INTO USF for an aggregate purchase price of $250,000 or $500 per share. In the subscription agreement, the Financing Corporation represents and warrants that its acquisition of the shares was for investment purposes only and not for resale or distribution. The Financing Corporation funded its subscription to 50% of the issued shares of INTO USF on March 15, 2010.

The Financing Corporation received opinions from its bond counsel and tax counsel expressing that the Corporation is permitted to own a 50% interest in INTO USF under Florida law and that holding the 50% interest in INTO USF will not conflict with or cause a breach under the covenants or agreements, which are currently contained in the bond documents to which the Financing Corporation is a party. Additionally, management deems all of INTO USF’s activities to be substantially related to the Corporation’s tax-exempt purpose.

The Financing Corporation has accounted for this investment under the equity method of accounting, given that it owns 50% of INTO USF’s outstanding shares and does not have control over INTO USF. Additionally, the Financing Corporation appointed three of INTO USF’s six-member board of directors.

The Financing Corporation’s initial investment in INTO USF, net of its 50% share of INTO USF’s cumulative net profits or losses, is included in the accompanying consolidated statements of financial position. The change in the equity investment balance in INTO USF for the period is included in the accompanying consolidated statements of activities and changes in net assets.

The equity investment balance is comprised of the following:

		Year ended June 30	
		2014	2013
Initial investment in INTO USF	$	250,000	250,000
Less 50% allocation of INTO USF's cumulative operating profits (losses)		(457,632)	(499,110)
Equity investment	$	(207,632)	(249,110)

On January 17, 2010, the Financing Corporation approved a promissory note to lend to INTO USF amounts not to exceed $2,250,000. Pursuant to the promissory note, INTO USF promises to pay interest on the principal balance of any advances outstanding in monthly installments beginning on January 17, 2014, and promises to repay the outstanding principal amount of all advances, together with all accrued but unpaid interest, by January 17, 2024. INTO USF promises to pay simple interest on the declining principal balance of any advances outstanding at a rate per annum equal to 5.00%. There were no borrowings or outstanding borrowings on the promissory note for the years ended June 30, 2014 and 2013.

(4) Related-Party Transactions

Pursuant to the lease purchase and trust agreements relating to the Series 2005A and Series 2005B (refunded by the Series 2012A) Housing Certificates, the Series 2007 (refunded by the Series 2012B) Housing Certificates, and the student housing portion of the Series 2010A&B Housing Certificates (Housing Certificates) (see note 10), the University remits all revenue from the University housing operations at the Tampa and St. Petersburg campuses, as well as all parking revenue from the St. Petersburg campus, and lease payments equal to 100% of basic rent and supplemental rent related to the St. Petersburg student center to the Trustee for payment of principal and interest on the Housing Certificates and other expenses of the Corporation. Pursuant to a management agreement between the University and the Financing Corporation, dated May 1, 2005, and amended as of September 1, 2007 and December 1, 2010, the Corporation pays to the University a management fee, initially equal to $265,000 per year (increased annually by Consumer Price Index (CPI)), for services such as managing the housing, parking and multipurpose student center projects, and collecting revenues. The University also agreed to contribute $2,800,000 toward the payment of costs of the Series 2010 St. Petersburg multipurpose student center project.

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

Pursuant to the facility lease and management agreement relating to the Series 2005C Housing Certificates (see note 10), the University makes lease payments in an amount equal to 120% of the basic rent payable and 100% of the supplemental rent due.

Pursuant to the facilities lease and management agreement relating to the Series 2010A&B Athletics Notes (see note 10), the University makes lease payments in an amount equal to 100% of the principal and interest due on the 2010A&B Notes. The University also agreed to contribute $6,500,000 toward the payment of costs of construction of the athletics' district facilities, representing funds previously collected and future capital campaign revenues restricted to finance the facilities.

The lease payments associated with the Series 2005C Housing Certificates, the Series 2010A&B Athletics Notes, and the student center funded portion of the Series 2010A&B Housing Certificates are absolute net returns to the Corporation to yield the amount necessary to pay all amounts due under the agreements and all costs, expenses, and obligations that may be necessary in connection with the use, occupancy, or operation of the facilities.

Pursuant to the ground lease agreement dated December 15, 2010, related to the Center for Advanced Medical Learning & Simulation (CAMLS) project (see note 10), the University agreed to contribute $6,076,701 toward the payment of costs of the project.

Pursuant to the master operating lease dated March 1, 2003, and amended on November 16, 2005 and March 15, 2011, relating to the Series 2003A Athletics Certificates (see note 10), the University makes lease payments in an amount equal to 100% of the base rent and additional rent due.

Pursuant to the operating and reporting agreement dated September 1, 2013, relating to the Series 2013 Arena Note (see note 10), the University and Sun Dome, Inc., as operators, remit all pledged arena revenues for payment of principal and interest.

The University is required to support the Corporation by transferring the amounts necessary for the Corporation to fulfill its obligations. An amount due from the University is recorded on the Corporation's consolidated statements of financial position that reflects the substance of these agreements. At the end of the Corporation's fiscal year, pursuant to the substance of the agreements, certain excess University remittances to the Trustee and the University's interest in the change in the fair value of the interest rate swaps over its share of actual operating and other expenses are included in "transfers (to) from affiliates to offset the change in fair value of interest rate swaps and other expenses" on the accompanying consolidated statements of activities and changes in net assets, and the corresponding amount due from the University is adjusted accordingly.

At June 30, 2014 and 2013, the balance of the amount due from the University was $43,961,210 and $27,386,266, respectively, detailed as follows:

		June 30	
		2014	**2013**
Due from USF for repayment of Housing Certificates, net of funds transferred at closing and principal paid	$	93,767,816	96,242,816
Due from USF for repayment of Series 2003A Certificates, net of principal paid		7,895,000	8,595,000
Due from USF for repayment of Series 2013 Arena Note, net of principal paid		19,529,546	—
Due from USF for cash collections through June 30, 2014, from USF Housing activities and lease payments due		2,471,334	2,003,319
Amounts pledged to offset operating and other costs		(72,452,863)	(70,032,049)
Due to USF for operating expenses		(277,537)	(1,291,478)
Due to USF for funds advanced for security pledged to counterparty, plus interest earnings thereon		(6,972,086)	(8,131,342)
Cumulative net amount due from USF to the Corporation	$	43,961,210	27,386,266

Pursuant to the facility lease agreements relating to the Series 2006A (refunded by the Series 2013A) and Series 2007 (refunded by the Series 2013B) Health Certificates (see note 10), the University Medical Services Support Corporation (MSSC) makes lease payments to the Trustee in an amount equal to 120% of the basic rent payable, 100% of the supplemental rent due, and 100% of additional rent due. The lease payments provided for in the agreements are absolute net returns to Financing Corporation to yield the amount necessary to pay all amounts due under the agreements and all costs, expenses, and obligations that may be necessary in connection with the use, occupancy, or operation of the facilities.

Pursuant to these agreements, the Corporation pays to the University a management fee, initially equal to $150,000 per year (increased annually by CPI), for services such as managing the health projects and collecting revenues.

An amount due from MSSC is recorded on the Corporation's consolidated statements of financial position that reflects the substance of these agreements. At the end of the Corporation's fiscal year, pursuant to the Series 2006A (refunded by the Series 2013A) and Series 2007 (refunded by the Series 2013B) Health Certificate agreements, certain excess MSSC remittances to the Trustee and MSSC's interest in the fair value of the interest rate swaps over its share of actual operating and other expenses are included in "transfers (to) from affiliates to offset the change in fair value of interest rate swaps and other expenses" on the accompanying consolidated statements of activities and changes in net assets, and the corresponding amount due from MSSC is adjusted accordingly.

At June 30, 2014 and 2013, the balance of the amount due from MSSC was $3,064,824 and $5,029,480, respectively, detailed as follows:

		June 30	
		2014	**2013**
MSSC's interest in the fair value of the interest rate swaps	$	5,565,283	7,055,880
Other amounts pledged to offset operating and other costs		(2,500,459)	(2,026,400)
Cumulative net amount due from MSSC to the Corporation	$	3,064,824	5,029,480

Pursuant to the facility lease agreement relating to the Series 2010 Note (see note 10) and CAMLS project, the USF Health Professions Conferencing Corporation (HPCC) makes lease payments to BB&T in an amount equal to 100% of principal and interest due on the 2010 Note. The lease payments provided for in the agreement are absolute net returns to Financing Corporation to yield the amount necessary to pay all amounts due under the agreements and all costs, expenses, and obligations that may be necessary in connection with the use, occupancy, or operation of the facility, including a management fee equal to $50,000 per year (increased annually by CPI). All interest income on the lease payment funds held at BB&T shall be used to pay amounts due on the 2010 Note.

At the end of the Corporation's fiscal year, pursuant to the Series 2010 agreements, certain excess HPCC remittances to BB&T over its share of operating and other expenses recorded are presented as "transfers (to) from affiliates to offset the change in fair value of interest rate swaps and other expenses" on the accompanying consolidated statements of activities and changes in net assets, and the corresponding amount due to HPCC is adjusted accordingly.

At June 30, 2014 and 2013, the balance of the amount due to HPCC was $320,382 and $301,941, respectively, detailed as follows:

		June 30	
		2014	**2013**
Net lease payments exceeding operating and other costs	$	320,258	301,647
Net interest earnings to apply to future lease payments		124	294
Cumulative net amount due to HPCC from the Corporation	$	320,382	301,941

(5) Concentrations of Credit Risk

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

(6) Fair Value Measurement

Fair value accounting guidance defines fair value as the exit price that would be received to sell an asset or transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Fair value guidance also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Based on the inputs used to determine fair value, a three-level fair value hierarchy is used as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. Such inputs include quoted prices in markets that are not active, quoted prices for similar assets and liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market date by correlation or other means.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about factors that market participants would consider in pricing the asset or liability based on the best information available in the circumstances.

The following table presents the Corporation's financial instruments carried at fair value as of June 30, 2014, in accordance with the ASC 820 valuation hierarchy (as described above):

	Level 1	Level 2	Level 3	Total
Assets:				
Recurring:				
Cash	$ 2,641	—	—	2,641
Restricted cash and investments:				
Short term cash fund	25,852,776	—	—	25,852,776
Total recurring assets	$ 25,855,417	—	—	25,855,417
Liabilities:				
Recurring:				
Interest rate swaps	$ —	21,590,640	—	21,590,640
Total recurring	—	21,590,640	—	21,590,640
Disclosure:				
Long-term notes payable	—	59,752,048	—	59,752,048
Certificates of participation payable	—	316,301,651	—	316,301,651
Total liabilities	$ —	397,644,339	—	397,644,339

The following table presents the Corporation's financial instruments carried at fair value as of June 30, 2013, in accordance with the ASC 820 valuation hierarchy (as described above):

	Level 1	Level 2	Level 3	Total
Assets:				
Recurring:				
Cash	$ 2,641	—	—	2,641
Restricted cash and investments:				
Short term cash fund	23,856,264	—	—	23,856,264
Total recurring assets	$ 23,858,905	—	—	23,858,905
Liabilities:				
Recurring:				
Interest rate swaps	$ —	25,003,411	—	25,003,411
Total recurring	—	25,003,411	—	25,003,411
Disclosure:				
Long-term notes payable	—	41,037,600	—	41,037,600
Certificates of participation payable	—	323,207,100	—	323,207,100
Total liabilities	$ —	389,248,111	—	389,248,111

The valuation methodologies used for instruments measured at fair value as presented in the table above are as follows:

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consisting of money market funds are measured at fair value using quoted market prices.

Interest Rate Swap Agreements

Interest rate swap agreements are valued using third-party pricing models, consistent with the market approach and income approach that use prices and other relevant information generated by market transactions involving identical or comparable assets. The present value technique is used to discount future amounts to the present values. Interest rate swap agreements are classified within Level 2 of the valuation hierarchy. The fair values of the interest rate swap agreements reflect current interest rates and the current creditworthiness of the counterparties (see note 11).

Long-term Notes and Certificates of Participation Payable

Long-term notes and certificates of participation payable are valued by an independent third-party. Fixed rate public debt is valued using quoted market prices for these securities. Variable rate public debt is valued at par as variable rates reflect current market rates. Non-public debt is valued at par as these securities are not traded and are held directly by commercial banks.

The Corporation's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. No transfers have been made between Level 1, Level 2, or Level 3 during the fiscal years ended June 30, 2014 and 2013.

While the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

(7) Construction-in-Progress

The Corporation, pursuant to the trust agreements, funded the costs of the following projects that were in progress at June 30, 2014 and 2013:

	June 30	
	2014	**2013**
Morsani center lab improvements (funded by the University)	—	1,156,842
Morsani center pharmacy improvements (funded by the University)	287,972	—
Construction-in-progress	$ 287,972	1,156,842

Interest is capitalized under the provisions of ASC 835, *Interest*. Interest expense incurred was $15,414,209 and $14,400,072 for the years ended June 30, 2014 and 2013, respectively. Of the interest-related expense incurred, $0 and $48,914 were capitalized for the years ended June 30, 2014 and 2013, respectively. Related remarketing expense incurred was $6,941 and $60,465 for the years ended June 30, 2014 and 2013, respectively. No remarketing expenses were capitalized for the years ended June 30, 2014 and 2013, respectively. The amount of capitalized interest expense is offset by capitalized net interest income earned on funds used to finance construction of $0 and $21 for the years ended June 30, 2014 and 2013, respectively.

The Corporation has certain projects in progress and expects to spend approximately $279,000 for the completion of these projects. The construction costs for completion of these projects will be paid for with contributions from the University.

(8) Capital Assets

Capital assets consist of the following for the years ended June 30, 2014 and 2013:

	Year ended June 30	
	2014	**2013**
Buildings	$ 346,050,037	346,059,661
Building improvements	11,704,458	10,375,467
Land improvements	7,894,663	7,894,663
Buildings, building improvements, and land improvements	365,649,158	364,329,791
Less accumulated depreciation	(47,159,430)	(37,779,253)
Capital assets, net	$ 318,489,728	326,550,538

The Corporation contributes all of its furniture, fixtures, and equipment to the University at cost as it is purchased.

(9) General and Administrative Expenses

General and administrative expenses for the years ended June 30, 2014 and 2013, were as follows:

	Year ended June 30	
	2014	**2013**
Insurance costs	$ 441,341	421,436
Letter of credit fees	73,071	750,870
Remarketing fees	6,941	60,465
Trustee fees	17,281	16,730
Ratings fees	—	16,000
Legal fees	—	4,893
Corporate expenses – Financing Corporation	70,049	89,185
Corporate expenses – Property Corporation	12,690	16,724
General and administrative expenses	$ 621,373	1,376,303

(10) Long-Term Liabilities

(a) Notes Payable

The Corporation's long-term notes payable are recorded at carrying value, which approximates fair value, on the consolidated statements of financial position. The Corporation had long-term notes payable outstanding at June 30, 2014:

Notes	Amount of original issue	Amount outstanding	Interest rates (percent) Gross	Net	Issue date	Maturity date
Series 2010A Athletics	$ 10,000,000	9,024,308	8.02	5.41	2010	2030
Series 2010B Athletics	13,500,000	12,382,821	6.17	4.16	2010	2031
Series 2010 CAMLS	20,000,000	18,344,919	6.17	4.16	2010	2031
Series 2013 Arena	20,000,000	20,000,000	4.78	4.78	2013	2033
Total	$ 63,500,000	59,752,048				

The Corporation had long-term notes payable outstanding at June 30, 2013:

Notes	Amount of original issue	Amount outstanding	Interest rates (percent) Gross	Net	Issue date	Maturity date
Series 2010A Athletics	$ 10,000,000	9,299,343	8.02	5.45	2010	2030
Series 2010B Athletics	13,500,000	12,790,044	6.17	4.20	2010	2031
Series 2010 CAMLS	20,000,000	18,948,213	6.17	4.20	2010	2031
Total	$ 43,500,000	41,037,600				

Series 2010A&B Athletics Notes

On January 15, 2010, the Financing Corporation entered into a loan agreement with BB&T. As of the date of the loan agreement, BB&T made available to the Financing Corporation a loan in an aggregate principal amount not to exceed $23,500,000. The proceeds of the loan were used to finance the acquisition, construction, and equipping of the athletics district facilities. The loan is evidenced by the 2010A&B Athletics Notes, issued as direct subsidy Build America Bonds. Under the Build America Bond program, issuers are authorized to receive a direct federal subsidy in an amount equal to 35% of the interest paid for all debt issued prior to January 1, 2011. Thus, the net interest costs associated with the Series 2010A&B Athletics Notes are equal to 65% of the gross interest rate. The loan was drawn in two advances: the Series 2010A Taxable Promissory Note in the amount of $10,000,000 on January 15, 2010, and the Series 2010B Taxable Promissory Note in the amount of $13,500,000 on December 15, 2010.

Pursuant to the requirements of the amended Balanced Budget and Emergency Deficit Control Act of 1985, direct federal subsidies are subject to sequestration beginning on March 1, 2013, pending intervening Congressional action. The direct federal subsidy was reduced to 32.5% for payments processed from October 1, 2013 through September 30, 2014. Thus, the net interest costs relating to the January 1, 2014 and July 1, 2014 interest payments are equal to 67.5% of the gross interest rate.

The Series 2010A and Series 2010B fixed rate Notes, maturing in 2030 and 2031, respectively, are callable at the option of the Financing Corporation on any scheduled payment date at 101% of principal outstanding.

Series 2010 CAMLS Note

On December 15, 2010, the Financing Corporation entered into a loan agreement with BB&T, at which time the bank provided a loan in an amount of $20,000,000. The proceeds of the loan were used to finance the acquisition, construction, and equipping of the USF Center for Advanced Medical Learning and Simulation (CAMLS) facility. The loan is evidenced by the 2010 CAMLS Taxable Promissory Note, issued as direct subsidy Build America Bonds. Under the Build America Bond program described above, the net interest cost associated with the Series 2010 CAMLS Note is equal to 65% of the gross interest rate.

Pursuant to the requirements of the amended Balanced Budget and Emergency Deficit Control Act of 1985, direct federal subsidies are subject to sequestration beginning on March 1, 2013, pending intervening Congressional action. The direct federal subsidy was reduced to 32.5% for payments processed from October 1, 2013 through September 30, 2014. Thus, the net interest costs relating to the January 1, 2014 and July 1, 2014 interest payments are equal to 67.5% of the gross interest rate.

The Series 2010 fixed rate Note, maturing in 2031, is callable at the option of the Financing Corporation on any scheduled payment date at 101% of principal outstanding.

Series 2013 Arena Note

On September 1, 2013, the Financing Corporation entered into a loan agreement with SunTrust Bank, at which time the bank provided a loan in an amount of $20,000,000. The proceeds of the loan were used to reimburse the University of South Florida for a portion of the costs undertaken by the University to renovate the USF Arena and Convocation Center. The loan is evidenced by the Series 2013 Arena Taxable Promissory Note.

The Series 2013 fixed rate Note, maturing in 2033, is callable at the option of the Financing Corporation on any scheduled payment date at a rate calculated pursuant to the requirements of the loan agreement.

(b) Notes Payable – Schedule of Payments

The following is a schedule of years of future payments payable under the loan agreements, as of June 30, 2014:

2015	$	5,468,033
2016		5,507,125
2017		5,499,084
2018		5,496,685
2019		5,492,359
Thereafter		69,016,655
Total minimum payments		96,479,941
Less amounts representing interest		(36,727,893)
Notes payable	$	59,752,048

(c) Certificates of Participation Payable

The Corporation had long-term certificates of participation (Certificates) outstanding at June 30, 2014:

Certificates		Amount of original issue	Amount outstanding	Interest rates (percent)	Issue/ acceptance date	Maturity date
Series 2005A Housing	$	47,995,000	30,630,000	3.00–5.38	2005	2023
Series 2005C Housing		41,610,000	37,200,000	3.25–5.00	2006	2036
Series 2010A Housing		2,860,000	2,545,000	3.00–5.00	2010	2020
Series 2010B Housing		15,140,000	15,140,000	8.35–8.55 (gross) 5.63–5.77 (net)	2010	2040
Series 2003A Athletics		9,905,000	7,895,000	3.14	2011	2023
Series 2012A Housing		89,125,000	88,425,000	0.77–3.87	2012	2035
Series 2012B Housing		68,975,000	67,275,000	4.35	2012	2037
Series 2013A Health		41,650,000	41,650,000	4.23	2013	2036
Series 2013B Health		20,855,000	20,855,000	4.25	2013	2037
Total	$	338,115,000	311,615,000			

The Corporation had long-term certificates of participation (Certificates) outstanding at June 30, 2013:

Certificates		Amount of original issue	Amount outstanding	Interest rates (percent)	Issue/ acceptance date	Maturity date
Series 2005A Housing	$	47,995,000	33,105,000	3.00–5.38	2005	2023
Series 2005C Housing		41,610,000	38,140,000	3.25–5.00	2006	2036
Series 2006A Health		47,315,000	42,815,000	3.58	2006	2036
Series 2007 Health		22,830,000	21,375,000	3.40	2007	2037
Series 2010A Housing		2,860,000	2,860,000	3.00–5.00	2010	2020
Series 2010B Housing		15,140,000	15,140,000	8.35–8.55 (gross) 5.43–5.68 (net)	2010	2040
Series 2003A Athletics		9,905,000	8,595,000	3.14	2011	2023
Series 2012A Housing		89,125,000	89,125,000	0.78–3.87	2012	2035
Series 2012B Housing		68,975,000	68,975,000	4.35	2012	2037
Total	$	345,755,000	320,130,000			

With the exception of the Series 2003A Certificates, the Corporation issued the above Certificates, pursuant to master trust agreements, and supplemented by supplemental trust agreements, by and among the Trustee, the Property Corporation, as lessor, and the Financing Corporation, as lessee. The certificates represent an undivided proportionate interest of the owners thereof in the right to receive basic rent payments payable under the master lease purchase agreements by and between the Property Corporation and the Financing Corporation, each supplemented by lease schedules.

Series 2005A and Series 2012A (Refunded Series 2005B) Housing Certificates

The proceeds of the Series 2005A and Series 2005B (refunded by the Series 2012A) tax-exempt Certificates were used to finance the cost to lease purchase certain student housing facilities existing on the University's Tampa campus, to acquire, construct, and equip a housing facility and a related parking facility on the University's St. Petersburg campus, and to pay certain expenses related to the issuance and sale of the Series 2005A&B Certificates, including the financial guaranty insurance policy premium. A portion of the proceeds of the Series 2005A&B Certificates were used to retire or defease the University's prior housing financings. In addition to the redemption of the University of South Florida Foundation, Inc. (the Foundation) Certificates, a portion of the proceeds of the Series 2005A&B Certificates were used to advance refund the State of Florida, Board of Regents, University of South Florida Housing Facility Revenue Bonds, Series 1996A. Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets were not included in the Corporation's consolidated statements of financial position. The original liability for the debt has been removed from the University's consolidated statement of financial position in consideration for the deposit of funds into an irrevocable trust established to defease the bonds, pursuant to an escrow deposit agreement entered into with The Bank of New York Trust Company, N.A., as escrow agent, and the Financing Corporation. Cash and securities were transferred from the University's Bank of New York trust to the Florida State Board of Administration for the purpose of defeasing the outstanding Series 1996A

Bonds and calling the Series 1996A Bonds maturing in the years 2007 through 2026 for redemption on July 1, 2006.

Beginning July 1, 2015, the Series 2005A fixed rate Certificates, which mature in 2023, are callable at the option of the Financing Corporation on any date at 100% of the principal amount outstanding. The Series 2005B variable rate Certificates, which were largely hedged to limit the effect of changes in interest rates (see note 11), initially carried interest at auction rates for generally successive seven-day auction periods. The Series 2005B Certificates were subject to mandatory prepayment prior to maturity on each July 1 in the years beginning in 2008.

The payment of regularly scheduled principal and interest on the Series 2005A&B Certificates have been guaranteed under the terms of the financial guaranty insurance policy issued by Ambac Assurance Corporation.

On March 18 and 20, 2008, the Financing Corporation converted the Series 2005B Certificates from auction rate securities to variable rate demand bonds with weekly rate periods. In connection with the conversion, the Certificates were secured by an additional credit enhancer and liquidity provider, pursuant to an irrevocable direct-pay letter of credit issued by Wells Fargo Bank, N.A. The letter of credit was scheduled to expire on October 8, 2012.

On October 1, 2012, in advance of the expiration, the Series 2005B Certificates were redeemed with equal par amount proceeds from the issuance of the Series 2012A Refunding Certificates, directly purchased by Wells Fargo Bank, N.A. on this date. In connection with this refunding, the Financing Corporation canceled the municipal bond insurance policy issued by Ambac Assurance Corporation for the Series 2005B Certificates. The Series 2012A Refunding Certificates are largely hedged to limit the effect of changes in interest rates (see note 11).

Series 2005C Housing Certificates

The proceeds of the Series 2005C tax-exempt Certificates were used to finance the cost to lease purchase a new student center and to pay certain expenses related to the issuance and sale of the Series 2005C Certificates, including the financial guaranty insurance policy premium.

Beginning July 1, 2015, the Series 2005C fixed rate Certificates, which mature in 2036, are callable at the option of the Financing Corporation on any date at 100% of the principal amount outstanding. The Series 2005C fixed rate Certificates maturing on July 1, 2031 and 2036, are subject to mandatory prepayment prior to maturity on each July 1 in the years beginning in 2027.

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

Series 2012B (Refunded Series 2007) Housing Certificates

The proceeds of the Series 2007 (refunded by the Series 2012B) tax-exempt Housing Certificates were used to finance the cost to acquire, construct, and equip a certain housing facility on the University's Tampa campus, to fund a capitalized interest account and to pay certain expenses related to the issuance and sale of the Series 2007 Housing Certificates, including the financial guaranty insurance policy premium. The Series 2007 Housing variable rate Certificates, which were hedged to limit the effect of changes in interest rates (see note 11), initially carried interest at auction rates for generally successive seven-day auction periods. During a weekly rate period, the Series 2007 Certificates were subject to optional prepayment.

The payment of regularly scheduled principal and interest on the Series 2007 Housing Certificates were initially guaranteed under the terms of a financial guaranty insurance policy issued by XL Capital Assurance.

On March 24, 2008, the Financing Corporation converted the Series 2007 Housing Certificates from auction rate securities to variable rate demand bonds with a weekly rate period. In connection with the conversion, the Financing Corporation surrendered the municipal bond insurance policy issued by XL Capital Assurance Inc. The Certificates were then secured pursuant to an irrevocable direct-pay letter of credit issued by Wells Fargo Bank, N.A. The letter of credit was scheduled to expire on October 8, 2012.

On October 1, 2012, in advance of the expiration, the Series 2007 Housing Certificates were redeemed with equal par amount proceeds from the issuance of the Series 2012B Refunding Certificates, directly purchased by Wells Fargo Bank, N.A. on this date. The Series 2012B Refunding Certificates are hedged to limit the effect of changes in interest rates (see note 11).

Series 2010A&B Housing Certificates

The proceeds of the Series 2010A&B Housing Certificates were used to finance the acquisition, construction, and installation of a mixed-use facility that includes a student center and a student housing facility on the University's St. Petersburg Campus, funding capitalized interest accounts, and paying certain expenses related to the issuance and sale of the Series 2010A&B Housing Certificates.

The Series 2010A tax-exempt, fixed rate Certificates, which mature in 2020, are not callable prior to maturity. Beginning July 1, 2020, the Series 2010B taxable, fixed rate Certificates maturing on July 1, 2030, are callable at the option of the Financing Corporation on any date at 100% of the principal amount outstanding. Beginning July 1, 2031, the Series 2010B fixed rate Certificates maturing on July 1, 2040, are callable at the option of the Financing Corporation on any date at 100% of the principal amount outstanding. As the Series 2010B Certificates were issued under the Build America Bond program, described previously, the net interest cost is equal to 65% of the gross interest rate.

Pursuant to the requirements of the amended Balanced Budget and Emergency Deficit Control Act of 1985, direct federal subsidies are subject to sequestration beginning on March 1, 2013, pending intervening Congressional action. The direct federal subsidy was reduced to 32.5% for payments processed from October 1, 2013 through September 30, 2014. Thus, the net interest costs relating to the January 1, 2014 and July 1, 2014 interest payments are equal to 67.5% of the gross interest rate.

Pursuant to a support agreement dated December 1, 2010, by and among the Foundation, the Property Corporation, and the Financing Corporation, the Foundation guaranteed to pay the deficiency between the principal and interest requirement on the Series 2010A&B Certificates allocable to the student center portion and the fees pledged to cover the student center debt service. The maximum amount of the deficiency the Foundation is obligated to pay is limited to $546,994 per year as long as the Certificates are outstanding. There have been no deficiencies funded by the Foundation as of June 30, 2014.

Series 2013A (Refunded Series 2006A) Health Certificates

The proceeds of the Series 2006A (refunded by the Series 2013A) tax-exempt Certificates were used to finance the cost to lease purchase the acquisition and construction of two fully equipped medical office buildings (the North Clinic Facility and the South Clinic Facility), funding a capitalized interest account and paying certain expenses related to the issuance and sale of the Series 2006A Certificates.

The Series 2006A variable rate Certificates, which were hedged to limit the effect of changes in interest rates (see note 11), initially carried interest at weekly rates for generally successive seven-day weekly rate periods. During a weekly rate period, the Series 2006A Certificates were subject to optional prepayment.

To provide credit enhancement for the Series 2006A Certificates, JPMorgan Chase Bank, N.A. (JPMorgan Chase) issued and delivered to the Trustee two separate irrevocable direct-pay letters of credit, pursuant to a reimbursement agreement by and among JPMorgan Chase, the Financing Corporation, and the Property Corporation. Under each of the letters of credit, the Trustee was entitled to draw up to an amount sufficient to pay 100% of the principal amount of the Series 2006A Certificates, plus interest, as applicable. The Corporation agreed in the reimbursement agreement to reimburse JPMorgan Chase for drawings made under either of the letters of credit and to make certain other payments to JPMorgan Chase. The letters of credit were scheduled to expire on March 17, 2014.

On September 3, 2013, in advance of the expiration, the Series 2006A Health Certificates were redeemed with equal par amount proceeds from the issuance of the Series 2013A Certificates, directly purchased by JPMorgan Chase Bank, N.A. on this date. The Series 2013A Certificates are hedged to limit the effect of changes in interest rates (see note 11). The refunding of the Certificates was accounted for as an extinguishment of debt and the related unamortized original issuance costs were written off as of June 30, 2014.

The University Medical Service Association (UMSA) guaranteed all payments due from MSSC to the Financing Corporation under both facility lease agreements, pursuant to a lease guaranty,

(Continued)

between UMSA and the Financing Corporation. The Financing Corporation's rights to receive all payments from MSSC under the facility lease agreements and any payments required to be made by UMSA under the lease guaranty are collaterally assigned to the Trustee, pursuant to one or more separate assignments.

Series 2013B (Refunded Series 2007) Health Certificates

The proceeds of the Series 2007 (refunded by the Series 2013B) tax-exempt Health Certificates were used to finance the acquisition, construction, installation, and equipping of a medical office building (Medical Office Building) located on the University's Tampa campus, to fund a capitalized interest account and to pay certain expenses related to the issuance and sale of the Series 2007 Health Certificates.

The Series 2007 Health variable rate Certificates, which were hedged to limit the effect of changes in interest rates (see note 11), initially carried interest at weekly rates for generally successive seven-day weekly rate periods. During a weekly rate period, the Series 2007 Health Certificates were subject to optional prepayment. To provide credit enhancement for the Series 2007 Health Certificates, JPMorgan Chase issued and delivered to the Trustee an irrevocable direct-pay letter of credit, pursuant to a reimbursement agreement by and among JPMorgan Chase, the Financing Corporation, and the Property Corporation. Under the letter of credit, the Trustee was entitled to draw up to an amount sufficient to pay 100% of the principal amount of the Series 2007 Health Certificates, plus interest, as applicable. The Corporation agreed in the reimbursement agreement to reimburse JPMorgan Chase for drawings made under the letter of credit and to make certain other payments to JPMorgan Chase. The letter of credit was scheduled to expire on March 17, 2014.

On September 3, 2013, in advance of the expiration, the Series 2007 Health Certificates were redeemed with equal par amount proceeds from the issuance of the Series 2013B Certificates, directly purchased by JPMorgan Chase Bank, N.A. on this date. The Series 2013B Certificates are hedged to limit the effect of changes in interest rates (see note 11). The refunding of the Certificates was accounted for as an extinguishment of debt and the related unamortized original issuance costs were written off as of June 30, 2014.

UMSA guaranteed all payments due from MSSC to the Financing Corporation under the facility lease agreements, pursuant to a lease guaranty between UMSA and the Financing Corporation. The Financing Corporation's rights to receive all payments from MSSC under the facility lease agreements and any payments required to be made by UMSA under the lease guaranty are collaterally assigned to the Trustee, pursuant to one or more separate assignments.

Series 2003A Athletics Certificates

The Series 2003A tax-exempt Certificates were issued pursuant to an amended and supplemented trust indenture, dated as of March 1, 2003, by and between the Foundation and U.S. Bank National Association, as successor in interest to SunTrust, as trustee. The $13,200,000 of Certificates were issued to finance the construction of an athletic training facility located on the Tampa Campus, pursuant to a ground lease agreement by and between the University and the Foundation. The Certificates were issued as variable rate debt secured by an irrevocable direct-pay letter of credit issued by SunTrust. On March 15, 2011, SunTrust agreed to convert the interest rate from variable to fixed and purchase the Certificates for their own account. Simultaneously with the conversion to a fixed rate, the Financing Corporation accepted an assignment from the Foundation of its rights, title, interests, and obligations related to the $9,905,000 outstanding Series 2003A Certificates. The Series 2003A fixed rate Certificates, which mature in 2023, are callable at the option of the Financing Corporation at 102% of the principal amount outstanding on any date from March 1, 2018 through February 28, 2019, at 101% of the principal amount outstanding on any date from March 1, 2019 through February 29, 2020, and at 100% of the principal amount outstanding on any date thereafter.

(d) Certificates of Participation Payable – Schedule of Payments

The following is a schedule of years of future payments payable under the certificate of participation agreements, as of June 30, 2014:

2015	$	22,425,809
2016		22,373,606
2017		22,355,826
2018		22,381,856
2019		22,333,126
Thereafter		382,862,692
Total minimum payments		494,732,915
Less amounts representing interest		(183,117,915)
Present value of future minimum payments		311,615,000
Plus premium		1,098,909
Less discount		(434,823)
Certificates of participation payable	$	312,279,086

(e) Certificates of Participation Payable – Fair Value

The Corporation’s certificates of participation payable are recorded at carrying value on the consolidated statements of financial position. The carrying amounts and fair value of the Corporation’s certificates of participation payable as of June 30, 2014 and 2013 were as follows:

		June 30			
		2014		2013	
Notes		**Carrying value**	**Fair value (Level 2)**	**Carrying value**	**Fair value (Level 2)**
Series 2005A Housing	$	31,728,828	31,619,880	34,325,920	34,624,551
Series 2005C Housing		36,765,177	37,805,920	37,685,413	37,319,192
Series 2010A Housing		2,545,081	2,743,260	2,860,094	3,036,172
Series 2010B Housing		15,140,000	18,032,591	15,140,000	17,342,185
Series 2003A Athletics		7,895,000	7,895,000	8,595,000	8,595,000
Series 2012A Housing		88,425,000	88,425,000	89,125,000	89,125,000
Series 2012B Housing		67,275,000	67,275,000	68,975,000	68,975,000
Series 2013A Health		41,650,000	41,650,000	—	—
Series 2013B Health		20,855,000	20,855,000	—	—
Series 2006A Health		—	—	42,815,000	42,815,000
Series 2007 Health		—	—	21,375,000	21,375,000
Total	$	312,279,086	316,301,651	320,896,427	323,207,100

Ground Lease Agreements

For each of the above transactions, the Corporation entered into ground lease agreements with the University, whereby the University leased to the Corporation the land on which all of the facilities are located or will be located. All of the rights, title, and interest of the Corporation in the lease agreements, including the right of the Corporation to receive lease payments, to use, sell, and related properties, and to exercise remedies thereunder, and in the ground leases have been irrevocably assigned by the Corporation to the trustee or to the bank, pursuant to assignment agreements.

All of the land on University campuses has been leased to the University by the State Board of Trustees of the Internal Improvement Trust Fund (IITF) for 99 years from January 22, 1974.

With respect to the South Clinic Facility site, the University possesses a leasehold interest in the site, pursuant to a sublease dated as of March 15, 2006, between the University and Florida Health Science Center, Inc., d/b/a Tampa General Hospital, whereby Tampa General Hospital has subleased to the University the land on which the South Clinic Facility was constructed. The Financing Corporation has subleased the North Clinic Facility, the South Clinic Facility, and the Medical Office Building to MSSC, pursuant to individual office building lease agreements.

With respect to the CAMLS facility site, the University acquired land in the central business district of downtown Tampa, Florida. The Financing Corporation has subleased the CAMLS facility to HPCC, pursuant to a facility lease agreement.

All of the Notes and Certificates are subject to certain covenants and other commitments. As of June 30, 2014, the Corporation is in compliance with all of these covenants and commitments, to the best of management’s knowledge. The Board of Directors has adopted a written debt management policy.

(11) Interest Rate Swap Agreements

The Corporation has four outstanding interest rate swap agreements. The Corporation has exclusively entered into "pay-fixed" interest rate swaps that effectively offset the variability in interest payments from changes in interest rates over the agreed term of the swap. The Corporation has fixed the interest rates on all but $12 million of its variable rate debt with interest rate swaps.

The Board of Directors has adopted a written derivatives policy that prohibits the use of speculative types of swaps or derivatives. The Board of Directors has also adopted a written debt management policy that requires the Financing Corporation to engage only counterparties with ratings of "AA-" or better at the time the Corporation enters into the agreement.

Risks associated with interest rate swaps include counterparty risk, termination risk, rollover risk, basis risks and tax event risk. The Corporation mitigates these risks through the use of monitoring systems, expert advisors, partnerships with experienced institutions, the requirement for strong counterparty credit ratings, contract provisions, and by actively monitoring market conditions. Pursuant to the terms of the swap agreements, in the absence of a default, only the Corporation has the right to terminate the swap contracts.

In accordance with ASC 815, *Derivatives and Hedging*, the following table summarizes the Corporation's outstanding interest rate swaps and the related fair values as of June 30, 2014 and 2013:

Underlying bond issue	Counterparty	Initial notional amount of swap	Outstanding amount of swap	Effective date	Initial term (yrs)	Fixed rate	Fair value June 30, 2014	Fair value June 30, 2013
Series 2012A	Royal Bank of Canada	$ 80,000,000	76,175,000	May 25, 2005	10	3.2195%	$ (3,545,742)	(5,644,385)
Series 2013A	Morgan Stanley	47,315,000	41,650,000	Mar 16, 2006	10	3.5780	(3,293,013)	(4,419,131)
Series 2012B	Royal Bank of Canada	73,700,000	67,275,000	Sep 25, 2007	30	3.5520	(12,479,616)	(12,303,146)
Series 2013B	Royal Bank of Canada	22,830,000	20,855,000	Nov 19, 2007	10	3.3970	(2,272,269)	(2,636,749)
Total		$ 223,845,000	205,955,000				$ (21,590,640)	(25,003,411)

The fair value of the swap agreements is the estimated amount the Corporation would receive or pay to terminate the swap agreement as of the reporting date. Fluctuations in swap values are determined primarily by rises and falls in the level of market interest rates compared to the pay-fixed rates on the swaps over the remaining term of the swap.

The unadjusted fair values of the Corporation's swap agreements at June 30, 2014 and 2013, were $(22,114,817) and $(25,675,960), respectively. In accordance with ASC 820, *Fair Value Measurements and Disclosures*, these values are adjusted using third-party models to take into account current interest rates and the current creditworthiness of the counterparties. The credit value adjusted fair values of the Corporation's swap agreements at June 30, 2014 and 2013, of $(21,590,640) and $(25,003,411), respectively, are included on the accompanying consolidated statements of financial position. The change in fair values of the Corporation's swap agreements for the years ended June 30, 2014 and 2013, of $3,412,771 and $11,063,562, respectively, are included in the accompanying consolidated statements of activities and changes in net assets.

The interest rate swap agreements contain collateral provisions to mitigate counterparty credit risk. These collateral provisions apply to two of the Corporation's four swap agreements: those relating to the Series 2012A (refunded Series 2005B) and Series 2012B (refunded Series 2007) Housing Certificates. These swap agreements require the Corporation's insurers to maintain claims paying ability of at least A3 by Moody's Investors Service or A – by Standard & Poor's. Both of the Corporation's municipal bond insurers, Ambac Assurance Corporation and XL Capital Assurance, Inc., have been downgraded below this level. The policy provided by XL Capital Assurance, Inc. was terminated in March 2008 in connection with the conversion of the Series 2007 Housing Certificates. The policy provided by Ambac Assurance Corporation was canceled in October 2012 in connection with the refunding of the Series 2005B Housing Certificates.

The collateral provisions of the interest rate swap agreements relating to the Series 2012A and Series 2012B Housing Certificates were amended on October 1, 2012 to incorporate the long-term unenhanced rating of any Housing Certificates issued by the Corporation on a parity basis, which rating is required to be at least Baa1 by Moody's Investors Service or BBB+ by Standard & Poor's.

The collateral provisions of the interest rate swap agreements relating to the Series 2012A and Series 2012B Housing Certificates require the Corporation to post collateral, in the form of cash or securities, for the negative valuation exposure in excess of the $10 million minimum threshold level. As of June 30, 2014 and 2013, the posted collateral was $6,970,000 and $8,300,000, respectively. These amounts are classified as security pledged to counterparty in the accompanying consolidated statements of financial position at June 30, 2014 and 2013.

(12) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with ASC 855, *Subsequent Events*, management has evaluated and reviewed the affairs of the Corporation for subsequent events that would impact the financial statements for the year ended June 30, 2014 through October 15, 2014, the date the consolidated financial statements were available for issuance.

On August 19, 2014, the Financing Corporation concluded negotiations with Royal Bank of Canada and amended the interest rate swap agreement related to the Series 2007 Health Certificates to reflect the refunding of the Series 2007 Health Certificates with the issuance of the Series 2013B Health Certificates. The collateral provisions of the amended agreement require the Corporation to post cash or securities collateral totaling $1,000,000. The Financing Corporation posted $1,000,000 in cash with the bank's custodian on September 4, 2014. This event does not impact the financial statements for the year ended June 30, 2014.

KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Independent Auditors’ 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 of Directors and Management
USF Financing Corporation and USF Property Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of USF Financing Corporation and USF Property Corporation (collectively, the Corporation), which comprise the consolidated statement of financial position as of June 30, 2014 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 15, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation’s consolidated financial statements are free from 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*.

Purpose of this Report

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

KPMG LLP

October 15, 2014
Certified Public Accountants