KPMG

USF FINANCING CORPORATION AND
USF PROPERTY CORPORATION

Consolidated Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

USF FINANCING CORPORATION AND
USF PROPERTY CORPORATION

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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 statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in unrestricted net assets and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's 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, 2018

USF FINANCING CORPORATION AND
USF PROPERTY CORPORATION

Consolidated Statements of Financial Position

June 30, 2018 and 2017

Assets		**2018**	**2017**
Cash	$	2,641	2,641
Restricted cash and cash equivalents		34,040,669	32,396,873
Certificate of deposit		6,024,000	6,000,000
Due from University of South Florida		67,781,069	77,142,634
Accounts receivable		90,476	34,854
Security pledged to counterparty		1,000,000	6,390,000
Capital assets, net of accumulated depreciation of $69,013,711 and $61,188,862, respectively		239,679,916	241,653,714
Total assets	$	348,618,771	363,620,716
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	1,673,765	—
Interest payable		5,674,227	5,707,821
Due to USF Health Professions Conferencing Corporation		408,503	384,162
Due to University Medical Service Association		3,745,245	3,158,618
Interest rate swaps payable		9,422,148	13,375,342
Accumulated losses from equity investment		252,765	585,974
Notes payable		50,973,087	53,318,566
Bonds payable		32,286,086	33,652,962
Certificates of participation payable		238,362,131	248,004,889
Total liabilities		342,797,957	358,188,334
Net assets:			
Unrestricted net assets		5,820,814	5,432,382
Total liabilities and net assets	$	348,618,771	363,620,716

See accompanying notes to consolidated financial statements.

USF FINANCING CORPORATION AND
USF PROPERTY CORPORATION

Consolidated Statements of Activities and Changes in Unrestricted Net Assets

Years ended June 30, 2018 and 2017

	2018	2017
Revenues:		
Operating revenues:		
University of South Florida lease revenue	$ 52,114,905	48,913,093
University Medical Service Association lease revenue	4,262,094	4,084,788
USF Health Professions Conferencing Corporation lease revenue	1,750,316	1,851,270
Total operating revenues	58,127,315	54,849,151
Expenses:		
University of South Florida housing system operating expenses	27,664,075	25,994,189
Management fee	690,784	672,361
Interest expense	12,146,866	12,330,188
Depreciation expense	7,824,849	7,810,919
General and administrative expenses	574,301	540,799
Total expenses	48,900,875	47,348,456
Other revenues (expenses):		
Change in equity investment	333,209	1,835,070
Loss on debt extinguishment	(71,246)	(54,091)
Change in fair value of interest rate swaps	3,953,194	6,945,285
Transfers to affiliates to offset the change in fair value of interest rate swaps and other expenses	(13,384,880)	(14,446,919)
Interest income	331,715	70,745
Total other expenses	(8,838,008)	(5,649,910)
Change in unrestricted net assets	388,432	1,850,785
Unrestricted net assets, beginning of year	5,432,382	3,581,597
Unrestricted net assets, end of year	$ 5,820,814	5,432,382

See accompanying notes to consolidated financial statements.

USF FINANCING CORPORATION AND
USF PROPERTY CORPORATION

Consolidated Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Operating activities:			
Change in unrestricted net assets	$	388,432	1,850,785
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:			
Amortization of costs of issuance		89,085	89,457
Loss on debt extinguishment		71,246	54,091
Depreciation expense		7,824,849	7,810,919
Amortization of premiums on certificates of participation and bonds payable		(1,723,527)	(1,839,727)
Change in fair value of interest rate swaps		(3,953,194)	(6,945,285)
Change in equity investment		(333,209)	(1,835,070)
Cash dividend from equity investment		—	6,000,000
Changes in operating assets and liabilities:			
Due from University of South Florida		9,361,565	6,281,517
Accounts receivable		(55,622)	(29,164)
Accounts payable		47	—
Interest payable		(33,594)	1,743,870
Due to USF Health Professions Conferencing Corporation		24,341	23,079
Due to University Medical Service Association		586,627	1,579,921
Net cash provided by operating activities		12,247,046	14,784,393
Investing activities:			
Capital expenditures		(4,177,333)	—
Proceeds from maturity of certificate of deposit		6,000,000	—
Purchase of certificate of deposit		(6,024,000)	(6,000,000)
Purchases of investments		(119,180,889)	(120,251,270)
Proceeds from sales or maturities of investments		117,537,093	117,096,315
Net cash used in investing activities		(5,845,129)	(9,154,955)
Financing activities:			
Cash paid for debt issuance costs		(58,500)	(53,440)
Proceeds from issuances of long-term debt		33,707,695	37,920,000
Principal paid due to refunding of debt		(33,707,695)	(37,920,000)
Principal paid on notes, bonds, and certificates of participation payable		(11,733,417)	(11,075,998)
Return of security pledged to counterparty		5,390,000	5,500,000
Net cash used in financing activities		(6,401,917)	(5,629,438)
Change in cash and cash equivalents		—	—
Cash and cash equivalents, beginning of year		2,641	2,641
Cash and cash equivalents, end of year	$	2,641	2,641
Supplemental cash flow information:			
Interest paid	$	13,814,903	12,336,586
Supplemental disclosure of noncash transactions:			
Accrued capital expenditures included in accounts payable		1,673,718	—

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

(i) 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.

(ii) 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 the 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 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.

(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 unrestricted 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, 2018 or 2017.

(i) Debt Issuance Costs and Premiums and Discounts

Debt issuance costs are amortized as an increase to interest expense over the life of the related debt using the straight-line method, which approximates the effective interest method. The unamortized balance of debt issuance costs was $1,137,027 and $1,238,858 as of June 30, 2018 and 2017, respectively.

Premiums on debt are amortized as a reduction to interest expense over the life of the related debt using the straight-line method, which approximates the effective interest method. The unamortized balance of premiums on debt was $11,760,636 and $13,484,163 as of June 30, 2018 and 2017, respectively. Discounts on debt are amortized as an increase to interest expense over the life of the related debt using the straight-line method, which approximates the effective interest method. There were no unamortized discounts on debt as of June 30, 2018 and 2017.

(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 (FASB) Accounting Standards Codification (ASC) 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 consolidated 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

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 Medical Service Association 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.

(Continued)

(m) Interest Rate Swaps

The Corporation makes limited use of derivative instruments for the purpose of managing interest rate risk (see note 10). 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 of the interest rate swap agreements is recognized in the consolidated statements of activities and changes in unrestricted 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 $1,951,553 and $2,455,403 for the years ended June 30, 2018 and 2017, 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 Corporation's interest rate swap agreements contain collateral provisions that require the Corporation to post collateral in the form of cash or securities (see note 10). Pursuant to the Corporation's agreements with the University of South Florida and University Medical Service Association (UMSA), the University or UMSA transfer any required collateral to the Corporation, and the Corporation immediately transfers the collateral to the counterparty's custodian.

(2) Cash, Restricted Cash and Cash Equivalents, and Certificate of Deposit

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 9).

On November 4, 2016, the Corporation purchased a 12-month certificate of deposit, bearing a 0.4% interest rate, from BB&T to hold the dividend distribution received from its equity investment in INTO USF, Inc. (see note 3). The certificate of deposit was renewed on November 6, 2017 for an additional 12-month period, bearing a 1.20% interest rate.

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

		June 30			
		2018		2017	
		Cost	Fair value	Cost	Fair value
Cash	$	2,641	2,641	2,641	2,641
Restricted cash and cash equivalents		34,040,669	34,040,669	32,396,873	32,396,873
Certificate of deposit		6,024,000	6,024,000	6,000,000	6,000,000
	$	40,067,310	40,067,310	38,399,514	38,399,514

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

		Year ended June 30	
		2018	2017
Interest, dividends and gains on restricted cash accounts	$	234,411	41,684
Plus net interest income accrued on restricted cash accounts		42,081	13,346
Interest income on restricted cash accounts		276,492	55,030
Interest on certificate of deposit		8,285	—
Plus net interest income accrued on certificate of deposit		46,938	15,715
Interest income on certificate of deposit		55,223	15,715
Interest income	$	331,715	70,745

(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 appoints 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 and dividend distributions received from INTO USF, 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 unrestricted net assets.

On September 26, 2016, the Board of Directors of INTO USF, Inc. authorized a dividend distribution of $12,000,000 to stockholders. The Financing Corporation's 50% share of the distribution, $6,000,000, was received on September 28, 2016.

The equity investment balance is comprised of the following:

		Year ended June 30	
		2018	**2017**
Initial investment in INTO USF	$	250,000	250,000
Plus 50% allocation of INTO USF's accumulated (deficit) gain		(502,765)	5,164,026
Less current year dividend distribution from INTO USF		—	(6,000,000)
Equity investment	$	(252,765)	(585,974)

The Corporation's negative equity investment balance as of June 30, 2018 and 2017 arose from the recognition of equity method losses in excess of its initial investment, thus, the equity investment is classified as a liability (accumulated losses from equity investment) in the consolidated statements of financial position as of June 30, 2018 and 2017.

Summary financial information for INTO USF, Inc. as of and for the years ended June 30, 2018 and 2017 is as follows:

		2018	2017
Financial position:			
Current assets	$	10,926,723	12,641,111
Equipment, furniture, and fixtures, net		73,549	113,450
Other assets		425,809	398,815
Total assets	$	11,426,081	13,153,376
Current liabilities	$	11,876,394	14,275,723
Net deferred income taxes		55,217	49,600
Total liabilities		11,931,611	14,325,323
Stockholders’ equity (deficit)		(505,530)	(1,171,947)
Total liabilities and stockholders’ equity	$	11,426,081	13,153,376
Results of operations:			
Total revenues	$	25,519,354	33,511,092
Net income		666,417	3,670,141

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, 2018 and 2017.

(4) Related-Party Transactions

(a) University of South Florida

Pursuant to the lease purchase and trust agreements relating to the Series 2015A (refunded Series 2005A) Housing Certificates, Series 2012A (refunded/remarketed Series 2012A) Housing Certificates, Series 2012B Housing Certificates, and the student housing portion of the Series 2010A&B Housing Certificates (Housing Certificates) (see note 9), 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 (increased annually by Consumer Price Index (CPI)), equal to $308,643 for the year ended June 30, 2018, for services such as managing the housing, parking and multipurpose student center projects, and collecting revenues.

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

Pursuant to the operating agreement dated May 1, 2015, relating to the Series 2015 Marshall Center Bonds (refunded Series 2005C Certificates) (see note 9), the University makes lease payments in an amount equal to 100% of the principal and interest due on the 2015 Bonds.

Pursuant to the facilities lease and management agreement dated January 15, 2010, relating to the Series 2018A&B Athletics Notes (refunded Series 2010A&B Athletics Notes) (see note 9), the University makes lease payments in an amount equal to 100% of the principal and interest due on the 2018A&B Notes.

The lease payments associated with the Series 2015 Marshall Center Bonds (refunded Series 2005C Certificates), the Series 2018A&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, including management fees (increased annually by CPI) equal to $145,161 for the year ended June 30, 2018.

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 9), 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 9), 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 unrestricted net assets, and the corresponding amount due from the University is adjusted accordingly.

At June 30, 2018 and 2017, the balance of the amount due from the University was $67,781,069 and $77,142,634, respectively, detailed as follows:

		2018	2017
Due from USF for repayment of Housing Certificates, net of funds transferred at closing and principal paid	$	72,635,035	75,445,035
Due from USF for repayment of Series 2003A Certificates, net of principal paid		4,765,000	5,600,000
Due from USF for repayment of Series 2013 Arena Note, net of principal paid		16,774,167	17,513,333
Due from USF for repayment of Series 2015 Marshall Center Bonds, net of principal paid		28,700,000	29,690,000
Due from USF for accrued lease payments		1,686,365	1,462,154
Amounts pledged to offset operating and other costs		(51,930,372)	(42,084,617)
Due to USF for accrued operating expenses		(2,423,593)	(2,662,699)
Due to USF for funds advanced for security pledged to counterparty, plus interest earnings thereon		(954)	(5,416,047)
Due to USF for Marshall Center Debt Service Reserve Fund being held on behalf of the University		(2,424,579)	(2,404,525)
Cumulative net amount due from USF to the Corporation	$	67,781,069	77,142,634

(b) USF Health Professions Conferencing Corporation

Pursuant to the facility lease agreement relating to the Series 2018 Note (refunded Series 2010 Note) (see note 9) and the USF Center for Advanced Medical Learning and Simulation (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 2018 Note. The lease payments provided for in the agreement are absolute net returns to the 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 (increased annually by CPI) equal to $54,872 for the year ended June 30, 2018. All interest income on the lease payment funds held at BB&T shall be used to pay amounts due on the 2018 Note.

At the end of the Corporation’s fiscal year, pursuant to the Series 2018 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 unrestricted net assets, and the corresponding amount due to HPCC is adjusted accordingly.

At June 30, 2018 and 2017, the balance of the amount due to HPCC was $408,503 and $384,162, respectively, detailed as follows:

		2018	2017
Net lease payments exceeding operating and other costs	$	406,919	383,271
Net interest earnings to apply to future lease payments		1,584	891
Cumulative net amount due to HPCC from the Corporation	$	408,503	384,162

(c) *University Medical Service Association, Inc.*

Pursuant to the facility lease agreements relating to the Series 2013A and Series 2013B Health Certificates (see note 9), the University Medical Service Association, Inc. (UMSA) 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 the 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 (increased annually by CPI), equal to $182,108 for the year ended June 30, 2018, for services such as managing the health projects and collecting revenues.

Pursuant to a lease guaranty between UMSA and the Financing Corporation, in September 2014, UMSA provided cash collateral in the amount of $1,000,000 to be pledged as security with the counterparty to the interest rate swap agreement related to the Series 2013B Health Certificates. The amount provided, along with interest earnings thereon, is due to UMSA.

An amount due to UMSA 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 2013A and Series 2013B Health Certificate agreements, certain excess UMSA remittances to the Trustee and UMSA’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 unrestricted net assets, and the corresponding amount due to UMSA is adjusted accordingly.

At June 30, 2018 and 2017, the balance of the amount due to UMSA was $3,745,245 and $3,158,618, respectively, detailed as follows:

		2018	2017
Due to UMSA for funds advanced for security pledged to counterparty	$	1,000,000	1,000,000
Interest earnings accrued on security pledged to counterparty		23,749	9,792
UMSA's interest in the fair value of the interest rate swaps		(294,619)	(768,192)
Other amounts pledged to offset operating and other costs		3,016,115	2,917,018
Cumulative net amount due to UMSA from the Corporation	$	3,745,245	3,158,618

(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, certificates of deposit, and interest rate swap agreements. The Corporation maintains its cash, restricted cash and cash equivalents, certificates of deposit, 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 data 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, 2018, 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 cash equivalents:					
Short-term cash fund		34,040,669	—	—	34,040,669
Certificate of deposit		6,024,000	—	—	6,024,000
Total recurring assets	$	40,067,310	—	—	40,067,310
Liabilities:					
Recurring:					
Interest rate swaps	$	—	9,422,148	—	9,422,148
Total liabilities	$	—	9,422,148	—	9,422,148

The following table presents the Corporation’s financial instruments carried at fair value as of June 30, 2017, 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 cash equivalents:					
Short-term cash fund		32,396,873	—	—	32,396,873
Certificate of deposit		6,000,000	—	—	6,000,000
Total recurring assets	$	38,399,514	—	—	38,399,514
Liabilities:					
Recurring:					
Interest rate swaps	$	—	13,375,342	—	13,375,342
Total liabilities	$	—	13,375,342	—	13,375,342

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

(a) Restricted Cash and Cash Equivalents

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

(b) Certificate of Deposit

The certificate of deposit is measured at fair value using quoted market prices.

(c) 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 10).

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, 2018 and 2017.

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) Capital Assets

Capital assets consist of the following for the years ended June 30, 2018 and 2017:

		2018	2017
Buildings	$	283,051,308	283,051,308
Building improvements		17,747,656	11,896,605
Land improvements		7,894,663	7,894,663
Buildings, building improvements, and land improvements		308,693,627	302,842,576
Less accumulated depreciation		(69,013,711)	(61,188,862)
Capital assets, net	$	239,679,916	241,653,714

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

(8) General and Administrative Expenses

General and administrative expenses for the years ended June 30, 2018 and 2017, were as follows:

		2018	2017
Insurance costs	$	426,195	417,434
Trustee fees		17,782	17,741
Corporate expenses – Financing Corporation		112,017	87,957
Corporate expenses – Property Corporation		18,307	17,667
General and administrative expenses	$	574,301	540,799

(9) Long-Term Liabilities

(a) Notes Payable

The Corporation had notes payable outstanding at June 30, 2018 as follows:

Notes		Amount of original issue	Amount outstanding	Interest rates (percent) Gross	Interest rates (percent) Net	Issue date	Maturity date
Series 2013 Arena	$	20,000,000	17,395,000	4.78	4.78	2013	2033
Series 2018A Athletics		7,685,180	7,685,180	3.46	3.46	2018	2030
Series 2018B Athletics		10,486,685	10,486,685	3.51	3.51	2018	2031
Series 2018 CAMLS		15,535,830	15,535,830	3.51	3.51	2018	2031
Total	$	53,707,695	51,102,695				

The Corporation had notes payable outstanding at June 30, 2017 as follows:

Notes		Amount of original issue	Amount outstanding	Interest rates (percent) Gross	Interest rates (percent) Net	Issue date	Maturity date
Series 2010A Athletics	$	10,000,000	8,059,639	8.02	5.40	2010	2030
Series 2010B Athletics		13,500,000	11,004,101	6.17	4.16	2010	2031
Series 2010 CAMLS		20,000,000	16,302,372	6.17	4.16	2010	2031
Series 2013 Arena		20,000,000	18,105,000	4.78	4.78	2013	2033
Total	$	63,500,000	53,471,112				

(i) Series 2018A&B Athletics Notes

On March 9, 2018, the Financing Corporation entered into a loan agreement with BB&T to refund the Series 2010A&B Athletics Notes. The loan is evidenced by the Series 2018A&B Athletics Notes. The Series 2018A&B Athletics Notes are tax-exempt, fixed rate promissory notes, issued at amounts equal to the outstanding principal on the refunded Series 2010A&B Athletics Notes. The Notes mature in 2030 and 2031, respectively. Subjective acceleration clauses and other bank-favorable covenants were also eliminated in the Series 2018 Athletics loan agreement.

The Series 2010A&B Athletics Notes were originally issued pursuant to a loan agreement with BB&T dated January 15, 2010. The proceeds of the loan were used to finance the acquisition, construction, and equipping of the athletics district facilities. The 2010A&B Athletics Notes were taxable promissory 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 were initially 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 were subject to sequestration beginning on March 1, 2013, pending intervening Congressional action. The direct federal subsidy was reduced to 32.7% for payments processed from October 1, 2017 through September 30, 2018. Thus, the net interest costs relating to the January 1, 2018 and the final March 9, 2018 interest payments were equal to 67.3% of the gross interest rate.

The Series 2018A&B Athletics Notes are callable at the option of the Financing Corporation on any scheduled payment date at: 101% of principal outstanding if prepaid during the first five years of the loan; 100.5% if prepaid between the fifth and tenth years of the loan; and 100% if prepaid after the tenth anniversary of the loan.

For the Series 2018A&B Athletics Notes, the Corporation has entered into a ground lease agreement, dated as of January 15, 2010 and amended as of March 9, 2018, with the University Board of Trustees whereby the University has leased to the Corporation the land on which the athletics district facilities are located.

The refunding of the Notes was accounted for as an extinguishment of debt and the related unamortized original issuance costs totaling $40,372 were written off and included as loss on debt extinguishment in the accompanying consolidated statements of activities and changes in unrestricted net assets for the year ended June 30, 2018.

(ii) Series 2018 CAMLS Note

On March 9, 2018, the Financing Corporation entered into a loan agreement with BB&T to refund the Series 2010 CAMLS Note. The loan is evidenced by the Series 2018 CAMLS Note. The Series 2018 CAMLS Note is a tax-exempt, fixed rate promissory note, issued at an amount equal to the outstanding principal on the refunded Series 2010 CAMLS Note. The Note matures in 2031. Subjective acceleration clauses and other bank-favorable covenants were also eliminated in the Series 2018 CAMLS loan agreement.

The Series 2010 CAMLS Note was originally issued pursuant to a loan agreement with BB&T dated December 15, 2010. The proceeds of the loan were used to finance the acquisition, construction, and equipping of the CAMLS facility. The 2010 CAMLS Note was a 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 was initially 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 were subject to sequestration beginning on March 1, 2013, pending intervening Congressional action. The direct federal subsidy was reduced to 32.7% for payments processed from October 1, 2017 through September 30, 2018. Thus, the net interest costs relating to the January 1, 2018 and the final March 9, 2018 interest payments were equal to 67.3% of the gross interest rate.

The Series 2018 CAMLS Note is callable at the option of the Financing Corporation on any scheduled payment date at: 101% of principal outstanding if prepaid during the first five years of the loan; 100.5% if prepaid between the fifth and tenth years of the loan; and 100% if prepaid after the tenth anniversary of the loan.

For the Series 2018 CAMLS Note, the Corporation has entered into a ground lease agreement, dated as of December 15, 2010 and amended as of June 12, 2015 and March 9, 2018, with the University Board of Trustees whereby the University has leased to the Corporation the land on which the CAMLS facility is located. The University acquired land in the central business district of downtown Tampa, Florida. The Corporation has subleased the CAMLS facility to HPCC, pursuant to a facility lease agreement.

The refunding of the Note was accounted for as an extinguishment of debt and the related unamortized original issuance costs totaling $30,874 were written off and included as loss on debt extinguishment in the accompanying consolidated statements of activities and changes in unrestricted net assets for the year ended June 30, 2018.

(iii) *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 future payments payable under the loan agreements, as of June 30, 2018:

2019	$	4,477,069
2020		4,529,470
2021		4,579,540
2022		4,643,487
2023		4,704,528
Thereafter		44,080,939
Total minimum payments		67,015,033
Less amounts representing interest		(15,912,338)
Present value of future minimum payments		51,102,695
Less unamortized costs of issuance		(129,608)
Notes payable	$	50,973,087

(c) Notes Payable – Fair Value

The Corporation’s notes payable are recorded at carrying value on the consolidated statements of financial position. The carrying amounts and fair value of the Corporation’s notes payable as of June 30, 2018 and 2017 were as follows:

		2018		2017	
Notes		**Carrying value**	**Fair value (Level 2)**	**Carrying value**	**Fair value (Level 2)**
Series 2010A Athletics	$	—	—	8,024,010	8,059,639
Series 2010B Athletics		—	—	10,997,113	11,004,101
Series 2010 CAMLS		—	—	16,269,893	16,302,372
Series 2013 Arena		17,322,340	17,395,000	18,027,550	18,105,000
Series 2018A Athletics		7,670,964	7,685,180	—	—
Series 2018B Athletics		10,467,242	10,486,685	—	—
Series 2018 CAMLS		15,512,541	15,535,830	—	—
Total	$	50,973,087	51,102,695	53,318,566	53,471,112

(d) Bonds Payable

The Corporation had bonds outstanding at June 30, 2018 as follows:

Bonds		Amount of original issue	Amount outstanding	Interest rates (percent)	Issue/ acceptance date	Maturity date
Series 2015 Marshall Center	$	31,595,000	29,690,000	3.00–5.00	2015	2036
Total	$	31,595,000	29,690,000			

The Corporation had bonds outstanding at June 30, 2017 as follows:

Bonds		Amount of original issue	Amount outstanding	Interest rates (percent)	Issue/ acceptance date	Maturity date
Series 2015 Marshall Center	$	31,595,000	30,655,000	2.00–5.00	2015	2036
Total	$	31,595,000	30,655,000			

(i) Series 2015 Marshall Center Revenue Bonds

The Series 2015 tax-exempt, fixed rate Marshall Center Revenue Bonds were issued on May 6, 2015 to refund the Series 2005C Certificates of Participation, in advance of the first optional prepayment date of the Series 2005C Certificates on July 1, 2015. The Bonds mature in 2036 and, beginning on July 1, 2025, are callable at the option of the Financing Corporation at 100% of the principal amount outstanding.

The Bonds are payable solely from and secured by a lien upon the pledged revenues, which consist of Marshall Center payments as defined in the operating agreement, dated May 1, 2015, between the Corporation and the University.

The proceeds of the Series 2005C tax-exempt Certificates, issued on January 19, 2006, 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.

Upon refunding the Certificates, the ground lease associated with the Series 2005 Certificates was terminated.

The Series 2015 Bonds were issued pursuant to the terms of a trust indenture, dated as of May 1, 2015, by and between the Trustee and the Corporation.

(e) Bonds Payable – Schedule of Payments

The following is a schedule of future payments payable under the bond agreements, as of June 30, 2018:

2019	$	2,375,645
2020		2,375,245
2021		2,372,770
2022		2,367,770
2023		2,370,020
Thereafter		32,964,938
Total minimum payments		44,826,388
Less amounts representing interest		(15,136,388)
Present value of future minimum payments		29,690,000
Plus unamortized premium		2,802,908
Less unamortized costs of issuance		(206,822)
Bonds payable	$	32,286,086

(f) Bonds Payable – Fair Value

The Corporation's bonds payable are recorded at carrying value on the consolidated statements of financial position. The carrying amounts and fair value of the Corporation's bonds payable as of June 30, 2018 and 2017 were as follows:

		2018		2017	
Bonds		**Carrying value**	**Fair value (Level 2)**	**Carrying value**	**Fair value (Level 2)**
Series 2015 Marshall Center	$	32,286,086	32,882,304	33,652,962	34,432,336
Total	$	32,286,086	32,882,304	33,652,962	34,432,336

(g) Certificates of Participation Payable

The Corporation had certificates of participation (Certificates) outstanding at June 30, 2018 as follows:

Certificates		Amount of original issue	Amount outstanding	Interest rates (percent)	Issue/ acceptance date	Maturity date
Series 2010A Housing	$	2,860,000	1,175,000	4.00–5.00	2010	2020
Series 2010B Housing		15,140,000	15,140,000	8.35–8.55 (gross) 5.62–5.76 (net)	2010	2040
Series 2003A Athletics		9,905,000	4,765,000	3.14–3.82	2011	2022
Series 2012B Housing		68,975,000	59,800,000	4.30–4.72	2012	2037
Series 2013B Health		20,855,000	18,555,000	4.25–4.69	2013	2037
Series 2015A Housing		23,640,000	18,105,000	2.63–5.00	2015	2023
Series 2012A Housing		77,015,000	76,270,000	4.00–5.00	2015	2035
Series 2013A Health		37,920,000	36,395,000	2.31–2.81	2016	2036
Total	$	256,310,000	230,205,000			

The Corporation had certificates of participation (Certificates) outstanding at June 30, 2017 as follows:

Certificates		Amount of original issue	Amount outstanding	Interest rates (percent)	Issue/ acceptance date	Maturity date
Series 2010A Housing	$	2,860,000	1,535,000	3.00–5.00	2010	2020
Series 2010B Housing		15,140,000	15,140,000	8.35–8.55 (gross) 5.63–5.76 (net)	2010	2040
Series 2003A Athletics		9,905,000	5,600,000	3.14	2011	2022
Series 2012B Housing		68,975,000	61,775,000	4.35	2012	2037
Series 2013B Health		20,855,000	19,165,000	4.25	2013	2037
Series 2015A Housing		23,640,000	20,915,000	2.63–5.00	2015	2023
Series 2012A Housing		77,015,000	76,555,000	2.00–5.00	2015	2035
Series 2013A Health		37,920,000	37,920,000	2.31	2016	2036
Total	$	256,310,000	238,605,000			

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.

Additionally, for each of the above Certificates, 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. 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 relet properties, and

(Continued)

to exercise remedies thereunder, and in the ground leases have been irrevocably assigned by the Corporation to the Trustee, 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 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 UMSA, pursuant to individual office building lease agreements.

(i) Series 2010A&B Housing Certificates

The Series 2010A&B Housing Certificates were issued on December 23, 2010. 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 was initially 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 32.7% for payments processed from October 1, 2017 through September 30, 2018. Thus, the net interest costs relating to the January 1, 2018 and July 1, 2018 interest payments are equal to 67.3% of the gross interest rate.

(ii) Series 2003A Athletics Certificates

The Series 2003A tax-exempt Certificates were issued pursuant to an amended and supplemented trust indenture, dated March 1, 2003, by and between the University of South Florida Foundation, Inc. (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 2022, 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.

As a result of a change in the U.S. corporate tax rate, the interest rate on the Series 2003A Certificates increased effective January 1, 2018, pursuant to the provisions of the credit agreement with SunTrust.

(iii) Series 2012B Housing Certificates

The Series 2012B tax-exempt, variable rate Certificates were issued and directly placed with Wells Fargo Bank, N.A. on October 1, 2012 to refund the Series 2007 Housing Certificates. The Certificates were issued at an amount equal to the par amount of the outstanding Series 2007 Housing Certificates. The Certificates mature in 2037.

On September 29, 2017, the Corporation amended the continuing covenant agreement with Wells Fargo Bank to extend the direct placement credit facility for a 10-year term, and to eliminate subjective acceleration clauses and other bank-favorable covenants from the agreement.

The proceeds of the Series 2007 tax-exempt Housing Certificates, issued on September 25, 2007, 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 Certificates initially carried interest at auction rates for generally successive seven-day auction periods. 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. The Certificates were then secured pursuant to an irrevocable direct-pay letter of credit, prior to being refunded by the Series 2012B Certificates.

The Series 2012B Certificates are hedged to limit the effect of changes in interest rates (see note 10).

As a result of a change in the U.S. corporate tax rate, the interest rate on the Series 2012B Housing Certificates increased effective January 1, 2018, pursuant to the provisions of the continuing covenant agreement with Wells Fargo Bank.

(iv) Series 2013A Health Certificates

The Series 2013A tax-exempt, variable rate Certificates were issued and directly placed with JPMorgan Chase Bank, N.A. on September 3, 2013 to refund the Series 2006A Health Certificates. The Certificates were issued at an amount equal to the par amount of the outstanding

Series 2006A Certificates. On July 1, 2016, the Certificates were converted from variable rate to fixed rate mode. The Certificates mature in 2036.

The proceeds of the Series 2006A tax-exempt Certificates, issued on March 16, 2006, 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 Certificates initially carried interest at weekly rates for generally successive seven-day weekly rate periods, and were secured pursuant to two separate irrevocable direct-pay letters of credit, prior to being refunded by the Series 2013A Certificates. The Series 2013A variable rate Certificates were hedged to limit the effect of changes in interest rates prior to the July 1, 2016 conversion.

As a result of a change in the U.S. corporate tax rate, the interest rate on the Series 2013A Health Certificates increased effective January 1, 2018, pursuant to the provisions of the continuing covenants agreement with JPMorgan Chase Bank.

(v) Series 2013B Health Certificates

The Series 2013B tax-exempt, variable rate Certificates were issued and directly placed with JPMorgan Chase Bank, N.A. on September 3, 2013 to refund the Series 2007 Health Certificates. The Certificates were issued at an amount equal to the par amount of the outstanding Series 2007 Health Certificates. The Certificates mature in 2037.

The proceeds of the Series 2007 tax-exempt Health Certificates, issued on November 19, 2007, 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 Certificates initially carried interest at weekly rates for generally successive seven-day weekly rate periods, and were secured pursuant to an irrevocable direct-pay letter of credit, prior to being refunded by the Series 2013B Certificates. The Series 2013B Certificates are hedged to limit the effect of changes in interest rates (see note 10).

As a result of a change in the U.S. corporate tax rate, the interest rate on the Series 2013B Health Certificates increased effective January 1, 2018, pursuant to the provisions of the continuing covenants agreement with JPMorgan Chase Bank.

(vi) Series 2015A Housing Certificates

The Series 2015A tax-exempt, fixed rate Certificates were issued on May 6, 2015 to refund the Series 2005A Certificates, in advance of the first optional prepayment date of the Series 2005A Certificates on July 1, 2015. The Certificates mature in 2023 and are not subject to prepayment at the option of the Corporation.

The proceeds of the Series 2005A Certificates, issued on May 25, 2005, were used to retire or defease the University's prior housing financings, and to pay certain expenses related to the issuance and sale of the Series 2005A Certificates, including the financial guaranty insurance policy premium.

(vii) Series 2012A Housing Certificates

The Series 2012A tax-exempt, fixed rate Certificates were reissued on May 6, 2015 to convert the Series 2012A Certificates from variable rate to fixed rate mode. The Certificates mature in 2035, and are not subject to optional prepayment prior to July 1, 2025. On or after July 1, 2025, the Certificates are callable at the option of the Financing Corporation at 100% of the principal amount outstanding.

The Series 2012A Certificates were originally issued on October 1, 2012 as variable rate Certificates, directly placed with Wells Fargo Bank, N.A., to refund the Series 2005B Certificates. The Series 2005B Certificates were issued on May 25, 2005 and the proceeds 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 2005B Certificates, including the financial guaranty insurance policy premium. On March 18 and 20, 2008, the Corporation converted the Series 2005B Certificates from auction rate securities to variable rate demand bonds with weekly rate periods. The Certificates were secured by an irrevocable direct-pay letter of credit.

The Series 2012A variable rate Certificates were largely hedged to limit the effect of changes in interest rates. On April 15, 2015, in connection with the reissuance of the Certificates, the Corporation terminated the interest rate swap agreement related to these Certificates.

(h) Certificates of Participation Payable – Schedule of Payments

The following is a schedule of future payments payable under the certificate of participation agreements, as of June 30, 2018:

2019	$	19,112,545
2020		18,960,409
2021		18,935,687
2022		18,959,623
2023		18,874,942
Thereafter		250,712,211
Total minimum payments		345,555,417
Less amounts representing interest		(115,350,417)
Present value of future minimum payments		230,205,000
Plus unamortized premium		8,957,728
Less unamortized costs of issuance		(800,597)
Certificates of participation payable	$	238,362,131

(i) 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, 2018 and 2017 were as follows:

Certificates	2018 Carrying value	2018 Fair value (Level 2)	2017 Carrying value	2017 Fair value (Level 2)
Series 2010A Housing	$ 1,167,862	1,213,607	1,524,292	1,612,234
Series 2010B Housing	14,994,219	16,638,206	14,987,592	17,400,677
Series 2003A Athletics	4,755,880	4,765,000	5,588,735	5,600,000
Series 2012B Housing	59,751,074	59,800,000	61,723,499	61,775,000
Series 2013B Health	18,526,754	18,555,000	19,135,267	19,165,000
Series 2015A Housing	18,943,033	19,119,158	22,193,145	22,523,431
Series 2012A Housing	83,876,405	85,400,272	84,983,127	87,173,282
Series 2013A Health	36,346,904	36,395,000	37,869,232	37,920,000
Total	$ 238,362,131	241,886,243	248,004,889	253,169,624

(j) Covenants

All of the Notes, Bonds, and Certificates are subject to certain covenants and other commitments. The Board of Directors has adopted a written debt management policy.

(10) 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 of its variable rate debt with interest rate swaps.

At June 30, 2018, the Corporation had two outstanding interest rate swap agreements.

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, 2018 and 2017:

Underlying bond issue	Counter-party	Initial notional amount of swap	Outstanding amount of swap	Effective date	Initial term (yrs)	Fixed rate	Fair value June 30, 2018	Fair value June 30, 2017
Series 2012B	Royal Bank of Canada	$ 73,700,000	59,800,000	Sep 25, 2007	30	3.552	$ (9,127,529)	(12,607,150)
Series 2013B	Royal Bank of Canada	22,830,000	18,555,000	Nov 19, 2007	10	3.397	(294,619)	(768,192)
Total		$ 96,530,000	78,355,000				$ (9,422,148)	(13,375,342)

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, 2018 and 2017 were $(9,976,501) and $(13,854,960), respectively. In accordance with ASC 820, *Fair Value Measurement*, 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, 2018 and 2017 of $(9,422,148) and $(13,375,342), 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, 2018 and 2017 of $3,953,194 and $6,945,285, respectively, are included in the accompanying consolidated statements of activities and changes in unrestricted net assets.

The interest rate swap agreements contain collateral provisions to mitigate counterparty credit risk. The provisions of the interest rate swap agreement relating to the Series 2012B Housing Certificates require the Corporation to maintain a rating of at least Baa1 by Moody's Investors Service or BBB+ by Standard & Poor's on its Housing Certificates. The provisions 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.

Additionally, the collateral provisions of the interest rate swap agreement relating to the Series 2013B Health Certificates require the Corporation to post collateral, in the form of cash or securities, totaling $1,000,000, regardless of fluctuations in exposure.

As of June 30, 2018 and 2017, the total posted collateral was $1,000,000 and $6,390,000, respectively. These amounts are classified as security pledged to counterparty in the accompanying consolidated statements of financial position at June 30, 2018 and 2017.

(11) 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, 2018 through October 15, 2018, the date the consolidated financial statements were issued.

(a) Change in Accounting Framework Effective for Year Ending June 30, 2019

As a result of the Florida Excellence in Higher Education Act of 2018, for all universities within the State University System (SUS) of Florida, the university board of trustees must approve all appointments to the board of directors of any university direct support organization (DSO). This change will require all SUS university DSOs, including USF Financing Corporation and USF Property Corporation, to follow the Governmental Accounting Standards Board (GASB) financial accounting framework beginning in the fiscal year ending June 30, 2019.

(b) Conversion of the Series 2013B Health Certificates

On July 2, 2018, the Corporation converted the Series 2013B Health Certificates with an outstanding par amount of $17,925,000, subsequent to the principal payment made on that day, from a variable rate to a 20-year fixed rate of 3.39%. The converted Certificates are now held by STI Institutional & Government, Inc. The associated interest rate swap expired on July 1, 2018. The $1,000,000 in swap collateral was returned to the Corporation on July 9, 2018, and the Corporation subsequently returned the funds to UMSA.

(c) Amendment to Series 2012B Housing Certificates

On July 1, 2018, the Corporation amended the continuing covenant agreement and swap agreement related to the Series 2012B Housing Certificates to mitigate the increase in the interest rate resulting from the change in U.S. corporate tax rate. The all-in true interest rate effective July 1, 2018 is 4.669%.

(d) Amendment to Series 2013A Health Certificates

On July 1, 2018, the Corporation amended the continuing covenants agreement related to the Series 2013A Health Certificates to mitigate the increase in the interest rate resulting from the change in U.S. corporate tax rate, and to eliminate subjective acceleration clauses and other bank-favorable covenants. The interest rate effective July 1, 2018 is 2.71%.

(e) Amendments to Series 2003A Athletics Certificates and Series 2013 Arena Note

On July 1, 2018, the Corporation amended the credit agreement related to the Series 2003A Athletics Certificates and the loan agreement related to the Series 2013 Arena Note to eliminate subjective acceleration clauses and other bank-favorable covenants from the agreements.

These events do not impact the consolidated financial statements for the year ended June 30, 2018.

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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
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, 2018, and the related consolidated statements of activities and changes in unrestricted 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, 2018.

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*.

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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, 2018