



USF FINANCING CORPORATION
(A Component Unit of the University of South Florida)

Financial Statements

June 30, 2021

(With Independent Auditors' Report Thereon)

USF FINANCING CORPORATION
(A Component Unit of the University of South Florida)

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KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602-5145

Independent Auditors' Report

The Board of Directors
USF Financing Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the USF Financing Corporation (the Corporation), a component unit of the University of South Florida, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.



Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2021 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 solely 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

Tampa, Florida
October 25, 2021

USF FINANCING CORPORATION
(A Component Unit of the University of South Florida)

Management's Discussion and Analysis

June 30, 2021

(Unaudited)

Management's discussion and analysis (the MD&A) provides an overview of the financial position and activities of the USF Financing Corporation (the Financing Corporation) for the fiscal year ended June 30, 2021 and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for States and Local Governments*, as amended by GASB Statement No. 37. The MD&A, financial statements and notes thereto are the responsibility of the Financing Corporation's management.

Introduction

The Financing Corporation is a Florida not-for-profit corporation organized and operated exclusively to receive, hold, invest, 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.

Based on the application of the criteria described in GASB Codification Sections 2100 and 2600, the Financing Corporation is a discretely presented component unit of the University, and its financial balances and activity are reported in the University's Annual Comprehensive Financial Report. Additionally, the USF Property Corporation (the Property Corporation) is included within the Financing Corporation's financial statements as a blended component unit.

Overview of Financial Statements

Pursuant to GASB Statement No. 34, the Financing Corporation's financial report includes three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The MD&A, financial statements and notes thereto, encompass the Financing Corporation and its blended component unit, the USF Property Corporation.

The statement of net position reflects the assets, deferred outflows of resources, liabilities and deferred inflows of the Financing Corporation, using the accrual basis of accounting, and presents the financial position of the Financing Corporation at a specified time. The difference between total assets and deferred outflows of resources less total liabilities and deferred inflows is net position. The net position is an indicator of the Financing Corporation's financial health.

The statement of revenues, expenses, and changes in net position presents the Financing Corporation's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

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June 30, 2021

(Unaudited)

The statement of cash flows provides information in the form of cash inflows and outflows summarized by operating activities, capital and related financing activities, and investing activities. This statement will assist in evaluating the Financing Corporation's ability to generate net cash flows and its ability to meet its financial obligations as they come due.

Financial Highlights

The Financing Corporation's assets totaled approximately \$373.7 million at June 30, 2021. This balance reflects a decrease of approximately \$23.5 million (6%) from total assets of approximately \$397.2 million at June 30, 2020. The decrease in total assets primarily reflects the use of \$20.6 million of proceeds to construct capital projects. Deferred outflows decreased approximately \$4.2 million (22%) to approximately \$14.9 million at June 30, 2021 from approximately \$19.1 million at June 30, 2020. The decrease in deferred outflows reflects the reduction in the required security pledged to counterparty due to the improvement in the fair value of the interest rate swap. Total liabilities decreased approximately \$26.2 million (7%) to approximately \$367.2 million at June 30, 2021 from approximately \$393.4 million at June 30, 2020. The decrease in total liabilities primarily reflects the improvement in the fair value of the interest rate swap and the payment of principal on outstanding debt. Deferred inflows decreased by \$63,242 to \$87,006 from \$150,248. The Financing Corporation's net position decreased by approximately \$1.5 million (6%), reaching a year-end balance of approximately \$21.3 million.

The Financing Corporation's operating revenues were approximately \$14.3 million in fiscal year 2021, reflecting a decrease of approximately \$1.9 million (12%) from the prior fiscal year. Operating expenses in fiscal year 2021 were approximately \$0.6 million, reflecting a decrease of approximately \$0.7 million (52%) from fiscal year 2020. Operating income was approximately \$13.7 million, reflecting a decrease of approximately \$1.3 million (8%) from the prior fiscal year. The decrease in operating income primarily reflects the decrease in lease revenue as the Corporation waived approximately \$1.9 million of lessee payments for management fees and renewal and replacement reserve contributions for the fiscal year ending June 30, 2021.

Nonoperating expenses, net of nonoperating revenues, were approximately \$12.9 million in fiscal year 2021, reflecting a decrease of approximately \$2.4 million (23%) from fiscal year 2020. The decrease in nonoperating expenses, net of nonoperating revenues, primarily reflects the decrease in the equity investment in INTO USF, described above.

The fiscal year 2021 decrease in net position of approximately \$1.5 million was primarily related to the decrease in the equity investment in INTO USF due to the cumulative net losses incurred by INTO USF at June 30, 2021.

The Financing Corporation closed three debt transactions in fiscal year 2021:

- On August 31, 2020, the Financing Corporation refinanced the Series 2018 CAMLS Bank Note, the Series 2018A Athletics Bank Note, and the Series 2018B Athletics Bank Note reducing the net interest rates from 3.51%, 3.46% and 3.51%, respectively, to 2.25%. The reduction in interest rates will save approximately \$2.1 million in interest costs over the remaining 10 years to maturity for all three Series of Bank Notes.

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Management's Discussion and Analysis

June 30, 2021

(Unaudited)

Condensed Statements of Net Position

The following summarizes the Financing Corporation's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30:

Assets	2021	2020
Current assets	\$ 38,572,847	38,490,128
Restricted cash and cash equivalents, noncurrent	33,797,309	52,083,193
Construction in progress	17,585,916	32,727,737
Capital leases receivable, noncurrent	279,817,781	264,820,637
Other noncurrent assets	3,960,000	9,053,836
Total assets	<u>\$ 373,733,853</u>	<u>397,175,531</u>
Total deferred outflows of resources	<u>\$ 14,856,222</u>	<u>19,063,898</u>
Liabilities		
Current	\$ 27,183,846	31,598,919
Noncurrent	340,048,335	361,765,678
Total liabilities	<u>\$ 367,232,181</u>	<u>393,364,597</u>
Total deferred inflows of resources	<u>\$ 87,006</u>	<u>150,248</u>
Net Position		
Net investment in capital assets	\$ 2,243,991	3,968,743
Restricted	16,494,631	14,604,994
Unrestricted	2,532,266	4,150,847
Total net position	<u>\$ 21,270,888</u>	<u>22,724,584</u>

Current assets were approximately \$38.6 million at June 30, 2021, reflecting an increase of approximately \$0.1 million (1%) from the prior fiscal year. The increase in current assets is primarily due to the decrease in current restricted cash and cash equivalents by approximately \$1.6 million (8%) offset by the increase in due from USF Research Foundation of approximately \$1.2 million (1130%) and the increase in the current portion of capital leases receivable of approximately \$0.5 million (4%).

Construction in progress decreased approximately \$15.1 million (46%) due to the USF St. Petersburg Housing and Dining Facility being completed and placed in service in August 2020, offset by an increase of \$14.1 million in construction in progress related to the USF Research Foundation Laboratory and Office Building. Noncurrent restricted cash and cash equivalents decreased by approximately \$18.3 million (35%) reflecting the use of proceeds to construct capital projects. Capital leases receivable, noncurrent, increased approximately \$15.0 million (6%) to approximately \$279.8 million at June 30, 2021 from approximately \$264.8 million at June 30, 2020. The net increase resulted from the addition of a new capital lease receivable related to the USF

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June 30, 2021

(Unaudited)

St. Petersburg Housing and Dining Facility, completed and placed in service in August 2020, offset by the collection of payments on outstanding capital leases receivable.

Deferred outflows of resources decreased approximately \$4.2 million (22%) to approximately \$14.9 million at June 30, 2021 from approximately \$19.1 million at June 30, 2020 primarily due to the improvement in the market value of the interest rate swap agreement.

Total liabilities decreased approximately \$26.2 million (7%) to approximately \$367.2 million at June 30, 2021 from approximately \$393.4 million at June 30, 2020. The decrease in liabilities primarily resulted from the scheduled payments on debt obligations of approximately \$14.5 million along with approximately \$1.7 million in amortization of bond premiums in fiscal year 2021. Other liability items in total decreased by approximately \$10.0 million (28%) primarily due to the decrease in interest rate swap payable, construction payables and due to University of South Florida.

Condensed Statements of Revenues, Expenses and Changes in Net Position

The following summarizes the Financing Corporation's activities for the fiscal years ended June 30:

	<u>2021</u>	<u>2020</u>
Operating revenue	\$ 14,347,825	16,290,340
Operating expenses	<u>(639,304)</u>	<u>(1,323,024)</u>
Operating income	13,708,521	14,967,316
Nonoperating expenses, net	<u>(12,916,071)</u>	<u>(10,481,200)</u>
Excess of revenues over expenses	792,450	4,486,116
Contributions from USF Research Foundation	1,275,493	2,513,917
Contributions from (to) University of South Florida	(3,521,639)	895,395
Contributions to USF Foundation, Inc.	<u>—</u>	<u>(2,200,000)</u>
Decrease (increase) in net position	(1,453,696)	5,695,428
Net position, beginning of year	<u>22,724,584</u>	<u>17,029,156</u>
Net position, end of year	<u>\$ 21,270,888</u>	<u>22,724,584</u>

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Operating Revenues

Operating revenues by source for the fiscal years ended June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>	<u>Increase (decrease)</u>	<u>% Change</u>
University of South Florida lease revenue	\$ 10,434,034	13,295,812	(2,861,778)	(22)%
University Medical Service Associate lease revenue	1,492,515	1,765,831	(273,316)	(15)
USF Health Professions Conferencing Corporation lease revenue	519,675	587,941	(68,266)	(12)
USF Research Foundation lease revenue	<u>1,901,601</u>	<u>640,756</u>	<u>1,260,845</u>	<u>197</u>
Total operating revenues	<u>\$ 14,347,825</u>	<u>16,290,340</u>	<u>(1,942,515)</u>	<u>(12)%</u>

The Financing Corporation's total operating revenues, consisting of lease revenue related to the Financing Corporation's outstanding capital leases receivable, were approximately \$14.3 million in fiscal year 2021, which was a decrease of approximately \$1.9 million (12%) from 2020. Lease revenues generally reflect amounts received to pay interest and other amounts due on debt related to the capital leases. Lease revenues decreased as the Corporation waived approximately \$1.9 million of lessee payments for management fees and renewal and replacement reserve contributions for the fiscal year ending June 30, 2021.

Operating Expenses

The following summarizes operating expenses for the fiscal years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>	<u>Increase (decrease)</u>	<u>% Change</u>
Management services	\$ —	719,187	(719,187)	(100)%
General and administrative expenses	<u>639,304</u>	<u>603,837</u>	<u>35,467</u>	<u>6</u>
Total operating expenses	<u>\$ 639,304</u>	<u>1,323,024</u>	<u>(683,720)</u>	<u>(52)%</u>

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The Financing Corporation's total operating expenses decreased approximately \$0.7 million (52%) to approximately \$0.6 million in fiscal year 2021 from approximately \$1.3 million in fiscal year 2020 primarily due to the University's waiver of approximately \$0.8 million in management fees for the fiscal year ending June 30, 2021.

Nonoperating Revenues and Expenses

Certain revenue sources, including changes in equity investments and interest income, are considered nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the Financing Corporation's nonoperating revenues and expenses for the 2021 and 2020 fiscal years:

	<u>2021</u>	<u>2020</u>	<u>Increase (decrease)</u>	<u>% Change</u>
Interest expense	\$ (11,305,444)	(10,822,366)	(483,078)	(4)%
Change in equity investment	(1,638,216)	(103,158)	(1,535,058)	1,488
Interest income	<u>27,589</u>	<u>444,324</u>	<u>(416,735)</u>	<u>(94)</u>
Total net nonoperating expenses	<u>\$ (12,916,071)</u>	<u>(10,481,200)</u>	<u>(2,434,871)</u>	<u>(23)%</u>

The Financing Corporation's total net nonoperating expenses increased approximately \$2.4 million (23%) to approximately \$12.9 million in fiscal year 2021 from approximately \$10.5 million in fiscal year 2020. Interest expense increased reflecting interest payments on the recently issued Series 2018 Certificates and the Series 2019 Notes. The decrease in the equity investment in INTO USF was due to the Financing Corporation's recognition of its 50% share, or approximately \$1.7 million, of the approximately \$3.3 million of net loss incurred by INTO USF during the year ended June 30, 2021. Additional information on the Financing Corporation's equity investment can be found in note 5 to the financial statements. Interest income declined reflecting lower market interest rates.

Capital Assets

At June 30, 2021, the Financing Corporation had approximately \$17.6 million in capital assets consisting solely of construction in progress.

The following table summarizes the Financing Corporation's capital assets as of June 30:

	<u>2021</u>	<u>2020</u>	<u>Increase (decrease)</u>	<u>% Change</u>
Construction in progress	\$ 17,585,916	32,727,737	(15,141,821)	(46)%

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(Unaudited)

Additional information on the Financing Corporation's capital assets can be found in note 6 to the financial statements.

Debt Administration

At June 30, 2021, the Financing Corporation had approximately \$342.0 million in outstanding debt representing a decrease of approximately \$16.2 million (5%) from the prior fiscal year balance of approximately \$358.2 million. This decrease represents principal payments of approximately \$14.5 million and amortization of bond premiums of approximately \$1.7 million.

	2021	2020
Mortgage loan payable	\$ 3,150,164	3,380,202
Notes payable	69,202,506	72,925,810
Bonds payable	28,327,760	29,727,629
Certificates of participation payable	241,302,568	252,128,272
Total outstanding debt	\$ 341,982,998	358,161,913

Additional information on the Financing Corporation's long-term debt can be found in note 10 to the financial statements.

Economic Outlook

The Financing Corporation was formed exclusively to finance and develop facilities for the benefit of the University and its component units. The Financing Corporation will continue to respond successfully to the needs of the University and its component units by structuring new debt programs or restructuring existing programs for its major capital projects.

In March 2020, the University of South Florida converted to remote instruction in response to the public health crisis created by the COVID-19 pandemic. On August 24, 2020 the University followed the reopening plan approved by the Board of Governors of the State University System. On June 28, 2021, the University returned to pre-COVID classroom capacity and face-to-face courses, as well as campus operations. While the pandemic has adversely affected the revenues pledged to the bonds issued by the Financing Corporation, management has determined that, to date, the pandemic has not had a significant impact on the Corporation's cash flows. Management will continue its strong oversight of the Corporation's commitments and operations. The COVID-19 pandemic has not materially affected the fall 2021 revenues pledged to the bonds issued by the Financing Corporation and the Corporation does not anticipate any difficulty in making its Fiscal Year 2021-22 annual debt service payments.

The Financing Corporation's diversified revenues and conservative management practices produce consistently positive operations and cash flow. Appropriate agreements are in place and with frequent monitoring of the financial performance of pledged revenues, Financing Corporation management believes it will continue to have sufficient funds to cover its obligations.

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(A Component Unit of the University of South Florida)

Management's Discussion and Analysis

June 30, 2021

(Unaudited)

Request for Information

This financial report is designed to provide a general overview of Financing Corporation's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Chief Financial Officer, USF Financing Corporation, 4202 E. Fowler Avenue, CGS 401, Tampa, FL 33620.

USF FINANCING CORPORATION
(A Component Unit of the University of South Florida)

Statement of Net Position

June 30, 2021

Assets

Current assets:	
Cash	\$ 302,708
Certificate of deposit	3,773,698
Restricted:	
Cash and cash equivalents	18,597,971
Due from USF Research Foundation	1,275,493
Accounts receivable	1,411
Capital leases receivable, current portion	<u>14,621,566</u>
Total current assets	<u>38,572,847</u>
Noncurrent assets:	
Construction in progress	17,585,916
Restricted:	
Cash and cash equivalents	33,797,309
Security pledged to counterparty	3,960,000
Capital leases receivable, noncurrent portion	<u>279,817,781</u>
Total noncurrent assets	<u>335,161,006</u>
Total assets	<u>373,733,853</u>
Deferred Outflows of Resources	
Interest rate swap agreement	13,788,207
Deferred losses on refunding of debt	<u>1,068,015</u>
Total deferred outflows of resources	<u>14,856,222</u>
Total assets and deferred outflows of resources	<u>\$ 388,590,075</u>

USF FINANCING CORPORATION
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Statement of Net Position

June 30, 2021

Liabilities

Current liabilities:	
Accounts payable	\$ 1,030,710
Interest payable	5,630,587
Due to University of South Florida	3,255,300
Mortgage loan payable, current portion	240,247
Notes payable, current portion	3,937,623
Bonds payable, current portion	1,125,000
Certificates of participation payable, current portion	10,420,000
Accumulated losses from equity investment in INTO USF	1,544,379
Total current liabilities	27,183,846
Noncurrent liabilities:	
Interest rate swaps payable	13,788,207
Mortgage loan payable, less current portion	2,909,917
Notes payable, less current portion	65,264,883
Bonds payable, less current portion	27,202,760
Certificates of participation payable, less current portion	230,882,568
Total noncurrent liabilities	340,048,335
Total liabilities	367,232,181

Deferred Inflows of Resources

Deferred gain on refunding of debt	70,263
Deferred gain on capital lease	16,743
Total deferred inflows of resources	87,006
Total liabilities and deferred inflows of resources	\$ 367,319,187

Net Position

Net investment in capital assets	\$ 2,243,991
Restricted	16,494,631
Unrestricted	2,532,266
Total net position	\$ 21,270,888

See accompanying notes to financial statements.

USF FINANCING CORPORATION

(A Component Unit of the University of South Florida)

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2021

Operating revenues:	
University of South Florida lease revenue	\$ 10,434,034
University Medical Service Association lease revenue	1,492,515
USF Health Professions Conferencing Corporation lease revenue	519,675
USF Research Foundation lease revenue	1,901,601
Total operating revenues	<u>14,347,825</u>
Operating expenses:	
General and administrative expenses	<u>639,304</u>
Total operating expenses	<u>639,304</u>
Operating income	<u>13,708,521</u>
Nonoperating revenues (expenses):	
Interest expense	(11,305,444)
Change in equity investment	(1,638,216)
Interest income	27,589
Total nonoperating expenses, net	<u>(12,916,071)</u>
Excess of revenues over expenses	792,450
Contributions from USF Research Foundation	1,275,493
Contributions to University of South Florida	<u>(3,521,639)</u>
Change in net position	(1,453,696)
Net position, beginning of year	<u>22,724,584</u>
Net position, end of year	<u>\$ 21,270,888</u>

See accompanying notes to financial statements.

USF FINANCING CORPORATION
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Statement of Cash Flows

Year ended June 30, 2021

Cash flows from operating activities:	
Lease payments received from University of South Florida	\$ 22,336,172
Lease payments received from University Medical Service Association	3,891,983
Lease payments received from USF Health Professions Conferencing Corporation	1,465,339
Lease payments received from USF Research Foundation	2,233,837
General and administrative disbursements	<u>(642,502)</u>
Net cash provided by operating activities	<u>29,284,829</u>
Cash flows from capital and related financing activities:	
Capital expenditures	(20,581,557)
Proceeds of issuance of long-term debt	30,055,810
Principal paid on notes to refund debt	(30,055,810)
Principal paid on notes, bonds, and certificates of participation payable	(14,518,342)
Interest paid on notes, bonds, and certificates of participation payable	(14,346,005)
Contributions from related parties for capital and related financing activities	994,006
Contributions to related parties for capital and related financing activities	(675,907)
Receipt of pledged revenues from University of South Florida	18,992,144
Return of excess pledged revenues to University of South Florida	(18,992,144)
Security returned from swap counterparty	5,007,444
Security returned to lessee for swap collateral	<u>(5,103,653)</u>
Net cash used in capital and related financing activities	<u>(49,224,014)</u>
Cash flows from investing activities:	
Proceeds from withdrawals from or maturity of certificate of deposit	3,707,652
Purchase of certificate of deposit	(3,773,698)
Interest income	<u>88,003</u>
Net cash provided by investing activities	<u>21,957</u>
Net decrease in cash and cash equivalents	(19,917,228)
Cash and cash equivalents, beginning of year	<u>72,615,216</u>
Cash and cash equivalents, end of year	<u>\$ 52,697,988</u>

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Statement of Cash Flows

Year ended June 30, 2021

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 13,708,521
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in operating assets, liabilities, deferred outflow of resources, and deferred inflow of resources:	
Due from USF Research Foundation	103,736
Accounts receivable	(598)
Capital lease receivable, net	14,617,856
Due to University of South Florida	858,445
Due to University Medical Service Association	(531)
Accounts payable	<u>(2,600)</u>
Net cash provided by operating activities	<u>\$ 29,284,829</u>
Supplemental disclosures of noncash capital, investing, and financing activities:	
Accrued capital expenditures included in accounts payable	\$ 1,030,710
Accrued equity contribution from USF Research Foundation	1,275,493
Amortization of bond premiums included in interest expense	1,660,573
Amortization of deferred outflows and inflows of resources on debt refundings and capital leases included in interest expense	(108,920)
Changes in fair value of the interest rate swap	4,336,071
Changes in equity investment	(1,638,216)

See accompanying notes to financial statements.

USF FINANCING CORPORATION
(A Component Unit of the University of South Florida)

Notes to Financial Statements

June 30, 2021

(1) Organization

(a) Nature of Entity

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 statutes, 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.

(b) Reporting Entity

Criteria for defining the reporting entity are identified and described in Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2100 and 2600. These criteria were used to evaluate potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading. Based on the application of the criteria described in GASB Codification Sections 2100 and 2600, the Financing Corporation is a discretely presented component unit of the University, and its financial balances and activity are reported in the University's Annual Comprehensive Financial Report.

Based on the application of the criteria for determining component units discussed above, the USF Property Corporation (the Property Corporation) is included within the Financing Corporation's financial statements as a blended component unit. 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. Separate financial statements of the Property Corporation are not prepared. The Property Corporation has limited activity and held no assets, liabilities, or net assets at June 30, 2021. During fiscal year 2021, the Property Corporation's revenues of \$14,284 covered its operating expenses in the same amount.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Financing Corporation conform to accounting principles generally accepted in the United States of America as prescribed by GASB. The Financing Corporation's financial statements are presented as a business type activity.

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(b) Basis of Accounting

The financial statements of the Financing Corporation have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Accordingly, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

(c) Cash and Restricted Cash and Cash Equivalents

The Financing Corporation considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows. The Financing 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.

(d) Fair Value Measurement

The Financing Corporation categorizes its fair value measurements within the fair value hierarchy established by U.S. generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset or liability. Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

(e) 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.

(f) Capital Assets

Capital assets are reported at cost, less accumulated depreciation, if any. Donated assets, if any, are recorded at their estimated fair value at the date of donation. Costs incurred to construct capital assets are included in construction in progress. Such amounts are not depreciated.

(g) Capital Leases Receivable

The capital leases receivable represents amounts due from the Financing Corporation's related parties (note 8) in accordance with various financing and lease agreements relating to the use of capital assets financed and constructed with debt proceeds. Lease payments are required for debt service and related costs, as provided by each respective agreement. Capital leases receivable are recorded pursuant to GASB Statement No. 62 (note 7).

(h) Security Pledged to Counterparty

The Financing Corporation's interest rate swap agreement contains collateral provisions that require the Financing Corporation to post collateral in the form of cash or securities (note 12). Pursuant to the Financing Corporation's agreements with the University of South Florida, the University transfers any required collateral to the Financing Corporation, and the Financing Corporation immediately transfers the collateral to the counterparty's custodian.

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(i) *Deferred Outflows of Resources and Deferred Inflows of Resources*

In addition to assets, the statement of net position may report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources include the losses in fair value of effective interest rate swaps as well as losses on bond refundings.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. Deferred inflows of resources represent the acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows of resources include the gains in fair value of effective interest rate swaps, gains on bond refundings and gains on capital leases.

(j) *Interest Rate Swap Agreements*

The Financing Corporation makes limited use of derivative instruments for the purpose of managing interest rate risk (note 12). Interest rate swap agreements are used to convert the Financing Corporation's variable-rate long-term debt to a fixed rate. The fair value of the interest rate swap agreements is recognized in the statement of net position based on the criteria set forth in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended by GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The change in the fair value of effective interest rate swap agreements is recognized in the statement of net position as deferred effective interest rate inflows or outflows. Gains and losses resulting from changes in the fair value of ineffective interest rate swaps are recognized as a component of nonoperating items in the accompanying statement of revenues, expenses and changes in net position.

(k) *Debt Issuance Costs, Premiums and Discounts, and Deferred Gains or Losses*

Debt issuance costs are recognized as an expense in the period incurred as required by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and are reported as interest expense and included in the accompanying statement of revenues, expenses and changes in net position. 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 \$9,650,328 as of June 30, 2021. 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, 2021.

Gains and losses on refunded debt are recorded as deferred inflows and outflows of resources, respectively, and amortized pursuant to GASB Statement No. 65. Gains on refunded debt are amortized as a reduction to interest expense over the shorter of the remaining life of the old debt or the life of the new debt using the straight-line method, which approximates the effective interest method. Deferred losses on refunded debt are amortized as an increase to interest expense over the life of the related refunding debt using the straight-line method, which approximates the effective interest method. The unamortized balance of the deferred gains on debt refundings was \$70,263 as of June 30, 2021.

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The unamortized balance of the deferred losses on debt refundings was \$1,068,015 as of June 30, 2021.

(l) Net Position

Net position of the Financing Corporation is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any borrowings and deferred outflows of resources used to finance the purchase or construction of those assets. Restricted net position represents net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Financing Corporation, including amounts deposited with trustees and banks as required by debt agreements. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted.

When both restricted and unrestricted resources are available for use, it is the Financing Corporation's policy to use unrestricted resources first and then restricted resources as they are needed for purposes other than those defined in legal agreements.

(m) Revenue Recognition

The Financing Corporation recognizes revenue as it is earned. Operating revenues are based upon the terms of the Financing Corporation's trust, lease, and operating and reporting agreements with USF, University Medical Service Association (UMSA), USF Health Professions Conferencing Corporation, and USF Research Foundation (note 8). Other revenues (expenses) include the Financing Corporation's share of the equity investment in INTO USF, Inc. income (loss) reported as nonoperating revenue (loss) (note 5).

(n) Classification of Revenues and Expenses

The Financing Corporation's statement of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with the furtherance of the Financing Corporation's purpose. Operating expenses are all costs incurred to provide services under the lease terms other than financing costs.

Revenues and expenses from both exchange and nonexchange transactions, including investment income, interest expense on borrowed funds, the difference between interest rate swap payments received and paid, unrealized gains and losses on investments, gains and losses on disposal of capital assets, and other nonoperating income and expenses, are reported as nonoperating items in the financial statements.

(o) Investment Income

Investment income (including interest and dividends and realized and unrealized gains and losses) is reflected as a component of nonoperating revenues (expenses) in the accompanying statement of revenues, expenses and changes in net position. 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.

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

(p) 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.

(q) Use of Estimates

The preparation of 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 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.

(3) New Accounting Standards

In June 2017, the GASB issued Statement No. 87, *Leases*, followed by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, in May 2020 delaying the effective date to the Financing Corporation's fiscal year beginning July 1, 2021. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for leases based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Financing Corporation is evaluating the effect GASB Statement No. 87 will have on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, followed by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, in May 2020 delaying the effective date to the Financing Corporation's fiscal year beginning July 1, 2021. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The Financing Corporation is evaluating the effect GASB Statement No. 89 will have on its financial statements.

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

All restricted cash and cash equivalents of the Financing Corporation are held with The Bank of New York Mellon Trust Company, N.A. as Trustee (Trustee), Truist Bank (formerly Branch Banking & Trust Company (BB&T) and SunTrust Bank, pursuant to a merger of equals, effective December 6, 2019) (Truist Bank), and Valley National Bank (Valley 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

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Financing Corporation, and the loan agreements between Truist and the Financing Corporation and Valley National Bank and the Financing Corporation (note 10). Restricted cash and cash equivalents totaled \$52,395,280 which includes restricted cash equivalents of \$36,386,525 and restricted cash of \$16,008,755 as of June 30, 2021.

On November 8, 2019, the Financing Corporation purchased a 12-month certificate of deposit, bearing a 1.35% interest rate, from Truist Bank. The certificate of deposit was renewed on November 8, 2020 for an additional 12-month period, bearing a 0.01% interest rate. The certificate of deposit balance was \$3,773,698 as of June 30, 2021.

(a) Cash Deposits

Custodial credit risk. In the case of deposits, this is the risk that, in the event of a bank failure, the Financing Corporation's deposits may not be returned. The Financing Corporation has adopted the University Board of Trustees Investment Policy (the Investment Policy), which provides for custodial credit risk. At June 30, 2021, the Financing Corporation's bank balances are held in accounts protected under Chapter 280, Florida Statutes in institutions classified as qualified public depositories.

(b) Cash Equivalents and Certificate of Deposit

Credit risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Investment Policy provides that all fixed income securities, at time of purchase, shall be rated in the top three rating classifications as defined by both Moody's Investors Services and Standard & Poor's or First Tier consistent with SEC Rule 2a-7 if not rated and being no-load funds. The Investment Policy provides for credit risk. The risk varies depending on the type of investment.

The Investment Policy requires certificates of deposits to be highly rated and money market funds to be registered with the Securities and Exchange Commission and highly rated, or First Tier consistent with SEC Rule 2a-7 if not rated and being no-load funds.

At June 30, 2021, the Financing Corporation had the following debt instrument weighted average maturity and quality ratings:

	Weighted average maturity	Credit quality rating		Fair value
		Moody's	Standard & Poor's	
Money market funds	55 days	Aaa-mf	AAAm	\$ 36,386,525
Certificate of deposit	12 months	P-1	Not rated	3,773,698
				\$ 40,160,223

Custodial credit risk. The custodial risk for cash equivalents and certificates of deposit is the risk that, in the event of failure of the counterparty to a transaction, the Financing Corporation will not be able to recover the value of the cash equivalents or certificate of deposit that are in the possession of an outside party. Direct investments for the Financing Corporation are held in counterparty accounts with a custodian, in the name of the Financing Corporation.

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Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Financing Corporation's investment in a single institution or issuer. The Financing Corporation maintains its cash, restricted cash and cash equivalents, and certificates of deposit 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. The Investment Policy provides that the maximum amount that may be invested in the securities of an individual issuer not backed by the full faith and credit of the United States government shall not exceed 5% of the market value of its investment portfolio. Direct investments in securities of the United States government, government agencies, State of Florida Investment Pools, and Pooled Funds comprised solely of United States government securities are not subject to these restrictions.

Interest income generated was \$39,587 for the year ended June 30, 2021. Of the interest related income generated, \$11,998 was capitalized based on the provisions of GASB Statement No. 62, resulting in interest income, net of capitalized interest income of \$27,589 for the year ended June 30, 2021.

(5) 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 Financing 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 Financing Corporation's tax-exempt purpose.

The Financing Corporation has accounted for this investment under the equity method of accounting, as 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 statement of net position. The change in the equity investment balance in INTO USF for the current period is included in the accompanying statement of revenues, expenses and changes in net position.

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The equity investment balance comprises the following at June 30, 2021:

Initial investment in INTO USF	\$	250,000
Plus 50% share of INTO USF's accumulated (deficit)		<u>(1,794,379)</u>
Equity investment	\$	<u><u>(1,544,379)</u></u>

The Corporation's negative equity investment balance as of June 30, 2021 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 INTO USF) in the statement of net position.

Summary financial information for INTO USF, Inc. for the year ended June 30, 2021 is as follows:

		<u>2021</u>
Financial position:		
Current assets	\$	2,733,325
Equipment, furniture, and fixtures, net		16,627
Other assets		<u>339,698</u>
Total assets	\$	<u><u>3,089,650</u></u>
Current liabilities	\$	<u>6,178,409</u>
Total liabilities		6,178,409
Stockholders' equity		<u>(3,088,759)</u>
Total liabilities and stockholders' equity	\$	<u><u>3,089,650</u></u>
Results of operations:		
Total revenues	\$	10,609,310
Net loss		(3,276,432)

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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 year ended June 30, 2021.

(6) Capital Assets

Capital assets consist of the following at June 30, 2021:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Capital assets not being depreciated:				
Construction in progress	\$ 32,727,737	18,837,918	33,979,739	17,585,916
Total capital assets	<u>\$ 32,727,737</u>	<u>18,837,918</u>	<u>33,979,739</u>	<u>17,585,916</u>

Interest is capitalized under the provisions of GASB Statement No. 62. Interest expense incurred was \$12,286,681 for the year ended June 30, 2021. Of the interest-related expense incurred, \$981,237 was capitalized. The amount of capitalized interest expense was reduced by interest earnings on the funds used to finance construction. Interest earnings on the funds used to finance construction were \$11,998 for the year ended June 30, 2021.

During the year ended June 30, 2021, construction on the USF St. Petersburg Housing and Dining project was completed and the building placed in service in August 2020. The Financing Corporation has one project currently in progress, the Research Laboratory and Office Building, and expects to spend approximately \$11,852,000 for the completion of the project. The construction costs for completion of this project will be paid for with unspent debt proceeds, interest income earned on funds used to finance construction, and from contributions from the USF Research Foundation.

(7) Capital Leases Receivable

Capital leases receivable represents amounts due from related parties (note 8) in accordance with various financing and lease agreements relating to the use of capital assets financed and constructed with debt proceeds (note 10). Lease payments are required for debt service and related costs, as defined by the respective agreements. Capital leases receivable are recorded pursuant to GASB Statement No. 62. The current portion of the lease obligation receivable approximates the principal amount due on the respective debt issues in the following year.

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Capital leases receivable for the year ended June 30, 2021 were as follows:

Capital leases receivable due from University of South Florida	\$	233,135,010
Capital leases receivable due from University Medical Service Association		45,740,000
Capital lease receivable due from USF Health Professions Conferencing Corporation		12,453,596
Capital lease receivable due from USF Research Foundation		<u>3,110,741</u>
		294,439,347
Less current portion		<u>(14,621,566)</u>
	\$	<u><u>279,817,781</u></u>

The following is a schedule of future minimum lease payments due under the lease agreements, as of June 30, 2021:

2022	\$	27,586,753
2023		27,655,642
2024		26,944,299
2025		27,038,481
2026		27,138,476
2027–2031		135,475,385
2032–2036		104,413,050
2037-2041		19,761,025
2042-2046		9,510,200
2037–2041		<u>3,801,400</u>
Total minimum payments		409,324,711
Less amounts representing interest		<u>(114,885,364)</u>
Capital leases receivable, net	\$	<u><u>294,439,347</u></u>

(8) 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, the student housing portion of the Series 2019 Housing Certificates, and Series 2018 Housing Certificates (Housing Certificates) (note 10), the University remits all revenue from the University housing operations at the Tampa and St. Petersburg

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campuses, 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 Financing Corporation. The basic rent portion of the lease payments, comprised of principal and interest due on the related debt, is recorded as capital leases receivable pursuant to GASB Statement No. 62 and equaled \$176,185,000 at June 30, 2021 (note 7). Pursuant to a management agreement between the University and the Financing Corporation, dated May 1, 2005, amended as of September 1, 2007 and December 1, 2010, the Financing Corporation pays to the University a management fee (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 waived the management fees for fiscal year 2021.

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) (note 10), the University makes lease payments in an amount equal to 100% of the principal and interest due on the 2015 Bonds. The lease payments are recorded as a capital lease receivable due from the University of South Florida pursuant to GASB Statement No. 62 and equaled \$25,470,000 at June 30, 2021 (note 7).

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); the master operating lease dated March 1, 2003, and amended on November 16, 2005 and March 15, 2011, related to the Series 2003A Athletics Certificates; and the operating and reporting agreement dated September 1, 2013, relating to the Series 2013 Arena Note (note 10), the University makes lease payments in an amount equal to 100% of the principal and interest due. The lease payments are recorded as capital leases receivable due from the University of South Florida pursuant to GASB Statement No. 62 and equaled \$31,480,010 at June 30, 2021 (note 7).

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 portion of the Series 2010A&B Housing Certificates 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, including management fees (increased annually by CPI) for services, such as managing the facilities and collecting revenues. The University waived the management fees for fiscal year 2021.

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At June 30, 2021, the net amount due to the University was \$3,255,300 detailed as follows:

Due to USF for funds advanced for security pledged to counterparty, plus interest earnings thereon	\$ 3,960,269
Less due from USF for accrued lease payments	<u>(704,969)</u>
Net amount due to USF from Financing Corporation	<u>\$ 3,255,300</u>

(b) USF Health Professions Conferencing Corporation

Pursuant to the facility lease agreement dated December 15, 2010 and amended February 1, 2015, relating to the Series 2018 Note (refunded Series 2010 Note) (note 10) for the USF Center for Advanced Medical Learning and Simulation (CAMLS) project, the USF Health Professions Conferencing Corporation (HPCC) makes lease payments to Truist Bank in an amount equal to 100% of principal and interest due on the 2018 Note. The lease payments are recorded as capital leases receivable due from the USF Health Professions Conferencing Corporation pursuant to GASB Statement No. 62 and equaled \$12,453,596 as of June 30, 2021 (note 7). 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) for services, such as managing the facility and collecting revenues. The University waived the management fees for fiscal year 2021.

At June 30, 2021, there were no amounts due to or from USF Health Professions Conferencing Corporation.

(c) University Medical Service Association, Inc.

Pursuant to the facility lease agreements relating to the Series 2013A and Series 2013B Health Certificates (note 10), 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 are recorded as capital leases receivable pursuant to GASB Statement No. 62 and equaled \$45,740,000 at June 30, 2021 (note 7). 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 Financing Corporation pays to the University a management fee (increased annually by CPI) for services such as managing the health projects and collecting revenues. The University waived the management fees for fiscal year 2021.

At June 30, 2021, there were no amounts due to or from University Medical Service Association, Inc.

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(d) USF Research Foundation

Pursuant to a master lease agreement relating to the Series 2019 mortgage loan agreement (note 10), the University Diagnostic Institute (UDI) building is master leased to the USF Research Foundation (Research Foundation) until 2069, unless sooner terminated. Pursuant to the terms of the master lease, Research Foundation makes rental payments to the Financing Corporation in an amount equal to 100% of debt service due and 100% of any additional costs due by the Financing Corporation under the mortgage loan agreement. The rental payments are recorded as capital leases receivable pursuant to GASB Statement No. 62 and equaled \$3,110,741 at June 30, 2021 (note 7). The rental 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 a master lease agreement, dated December 16, 2019, relating to the Series 2019 promissory note (note 10), the USF Research Laboratory and Office Building will be constructed and then master leased to the Research Foundation until 2052, unless sooner terminated. Pursuant to the terms of the master lease, Research Foundation makes rental payments to the Financing Corporation in an amount equal to 100% of principal and interest due on the 2019 Note and 100% of any additional costs. Once construction is complete and the building is placed in service, the rental payments will be recorded as a capital lease receivable pursuant to GASB Statement No. 62. The rental 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, including a management fee (increased annually by CPI) for services, such as managing the facility and collecting revenues. The University waived the management fees for fiscal year 2021.

At June 30, 2021, the net amount due from the USF Research Foundation was \$1,275,493, representing the Research Foundation's cash contribution to the Laboratory and Office Building project.

(9) Fair Value Measurement

Fair value accounting guidance defines fair value as the exit price that would be required 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

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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 valuation methodologies used for instruments measured at fair value are as follows:

(a) 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. The fair values of the interest rate swap agreements reflect current interest rates and the current creditworthiness of the counterparties. Interest rate swap agreements are classified within Level 2 of the valuation hierarchy (note 12).

The Financing 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 year ended June 30, 2021.

While the Financing 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.

The following table presents the Financing Corporation’s financial instruments carried at fair value as of June 30, 2021, in accordance with the valuation hierarchy (as described above):

	Level 1	Level 2	Level 3	Total
Liabilities:				
Recurring:				
Interest rate swaps	\$ —	13,788,207	—	13,788,207
Total liabilities	\$ —	13,788,207	—	13,788,207

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(10) Long-Term Liabilities

Long-term liabilities of the Financing Corporation at June 30, 2021 include a mortgage loan payable, notes payable, bonds payable, and Certificates of participation payable. Long-term liabilities activity for the year ended June 30, 2021 was as follows:

	Beginning balance	Additions	Deletions	Ending balance	Amounts due within one year
Bonds payable	\$ 27,670,000	—	1,075,000	26,595,000	1,125,000
Certificates of participation payable	133,785,000	—	4,000,000	129,785,000	4,725,000
Direct borrowings and direct placements:					
Mortgage loan payable	3,380,202	—	230,038	3,150,164	240,247
Notes payable	72,925,810	30,055,810	33,779,114	69,202,506	3,937,623
Certificates of participation payable	109,090,000	—	5,490,000	103,600,000	5,695,000
	346,851,012	30,055,810	44,574,152	332,332,670	\$ 15,722,870
Plus original issue premium	11,310,901	—	1,660,573	9,650,328	
Total long-term liabilities	\$ 358,161,913	30,055,810	46,234,725	341,982,998	

(a) Mortgage Loan Payable

The Financing Corporation had a mortgage loan payable outstanding at June 30, 2021 as follows:

Mortgage loan	Amount of original issue	Amount outstanding	Interest rate (percent)	Issue date	Maturity date
Series 2019 UDI	\$ 3,600,000	3,150,164	4.33	2019	2031
Total	\$ 3,600,000	3,150,164			

Series 2019 Conventional Mortgage Loan (UDI building)

On May 1, 2019, the Financing Corporation entered into a conventional mortgage loan agreement, Series 2019, with Valley Bank. The Series 2019 Conventional Mortgage Loan was issued at a taxable fixed interest rate of 4.33% and matures in 2031. The proceeds of the loan were used to finance the acquisition of the University Diagnostic Institute (UDI) building located in the USF Research Park.

The cost of the UDI building was \$3,576,430 and is pledged as collateral for the Series 2019 mortgage loan, a direct borrowing from the bank. The Series 2019 mortgage loan contains provisions that in an event of default the bank may cancel the agreement, accelerate payment for all amounts due under the mortgage, take immediate possession and management of the property, and foreclose on the property.

The Financing Corporation master leased the UDI building to the Research Foundation until 2069, unless sooner terminated, and the Research Foundation makes rental payments to the Financing Corporation in an amount equal to 100% of debt service and any additional costs due (note 8). The rental payments are recorded as capital leases receivable pursuant to GASB Statement No. 62 (note 7).

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(b) Mortgage Loan Payable – Schedule of Payments

The following is a schedule of future payments payable under the mortgage loan agreement as of June 30, 2021:

	Direct borrowing	
	Principal	Interest
Year ending June 30:		
2022	\$ 240,247	135,722
2023	250,910	125,059
2024	261,742	114,227
2025	273,664	102,306
2026	285,810	90,160
2027–2031	1,630,777	249,070
2032–2034	207,014	4,581
Total minimum payments	<u>\$ 3,150,164</u>	<u>821,125</u>

(c) Notes Payable

The Financing Corporation had notes payable outstanding at June 30, 2021 as follows:

Notes	Amount of original issue	Amount outstanding	Interest rate (percent)	Issue date	Maturity date
Series 2013 Arena	\$ 20,000,000	15,055,000	4.78	2013	2033
Series 2018A Athletics	6,843,759	6,371,786	2.25	2020	2030
Series 2018B Athletics	9,354,110	8,734,890	2.25	2020	2031
Series 2018 CAMLS	13,857,941	12,940,578	2.25	2020	2031
Series 2019 Research Lab	27,000,000	26,100,252	3.22	2019	2039
Total	<u>\$ 77,055,810</u>	<u>69,202,506</u>			

(i) Series 2013 Arena Note

On September 1, 2013, the Financing Corporation entered into a loan agreement with Truist Bank, evidenced by the Series 2013 Arena Taxable Promissory Note. 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 Series 2013 Arena Note was issued at a taxable fixed rate and 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.

The Series 2013 Arena Note is a direct borrowing from the bank. The Note is not secured by any assets pledged as collateral. The Note contains provisions that in an event of default the bank may accelerate payment for all principal and interest due under the Note.

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Pursuant to an operating and reporting agreement, the University operates the Arena facility and makes payments to the Financing Corporation in an amount equal to at least 100% of principal and interest due on the Note, together with all other amounts due on the Note (note 8). The payments are recorded as capital leases receivable pursuant to GASB Statement No. 62 (note 7).

(ii) *Series 2018A&B Athletics Notes*

On March 9, 2018, the Financing Corporation entered into a loan agreement with Truist Bank to refund the Series 2010A&B Athletics Notes, which were originally issued to finance the acquisition, construction, and equipping of the athletics district facilities. The loan is evidenced by the Series 2018A&B Athletics Notes which were issued at tax-exempt, fixed interest rates. 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 5th and 10th years of the loan; and 100% if prepaid after the 10th anniversary of the loan.

On August 31, 2020, the Financing Corporation refinanced the Series 2018A&B Athletics Notes reducing the net interest rates from 3.46% and 3.51%, respectively, to 2.25% as evidenced by the Amended and Restated Promissory Notes. The Amended and Restated Series 2018A Athletics Note was issued in the amount of \$6,843,759. The proceeds were used to prepay the outstanding principal of the Series 2018A Athletics Note in the same amount. The refunding resulted in a difference between the reacquisition price and the net carrying amount in the amount of \$68,438. This amount represents the 1% prepayment premium required to prepay the debt during the first five years of the loan agreement. This difference, reported in the accompanying financial statements as a deferred outflow, is being charged to operations through the year 2030 using the straight line method. At June 30, 2021, the unamortized balance of the deferred outflow was \$64,229. The Amended and Restated Series 2018B Athletics Note was issued in the amount of \$9,354,110. The proceeds were used to prepay the outstanding principal of the Series 2018B Athletics Note in the same amount. The refunding resulted in a difference between the reacquisition price and the net carrying amount in the amount of \$93,541. This amount represents the 1% prepayment premium required to prepay the debt during the first five years of the loan agreement. This difference, reported in the accompanying financial statements as a deferred outflow, is being charged to operations through the year 2031 using the straight line method. At June 30, 2021, the unamortized balance of the deferred outflow was \$88,240. The Financing Corporation completed these current refundings to reduce its total debt service payments over the next 11 years by approximately \$1.0 million and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$0.9 million. The Series 2018A&B Athletics Notes are direct borrowings from the bank. The Notes are not secured by any assets pledged as collateral. The Notes contain provisions that in an event of default the bank may accelerate payment for all principal and interest due under the Notes.

The Financing Corporation 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 Financing Corporation the land on which the athletics district facilities are located. The Financing Corporation subleased the athletics district facilities to the University until 2031, unless sooner terminated. The University makes rental payments to the Financing Corporation in

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an amount equal to 100% of principal and interest due on the Notes, together with all other amounts due on the Notes (note 8). The rental payments are recorded as capital leases receivable pursuant to GASB Statement No. 62 (note 7).

(iii) Series 2018 CAMLS Note

On March 9, 2018, the Financing Corporation entered into a loan agreement with Truist Bank to refund the Series 2010 CAMLS Note, which was originally issued to finance the acquisition, construction, and equipping of the CAMLS facility. The loan is evidenced by the Series 2018 CAMLS Note which was issued at a tax-exempt, fixed 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 5th and 10th years of the loan; and 100% if prepaid after the 10th anniversary of the loan. On August 31, 2020, the Financing Corporation refinanced the Series 2018 CAMLS Notes reducing the net interest rates from 3.51% to 2.25% as evidenced by the Amended and Restated Promissory Note. The Amended and Restated Series 2018 CAMLS Note was issued in the amount of \$13,857,941. The proceeds were used to prepay the outstanding principal of the Series 2018 CAMLS Note in the same amount. The refunding resulted in a difference between the reacquisition price and the net carrying amount in the amount of \$138,579. This amount represents the 1% prepayment premium required to prepay the debt during the first five years of the loan agreement. This difference, reported in the accompanying financial statements as a deferred outflow, is being charged to operations through the year 2031 using the straight line method. At June 30, 2021, the unamortized balance of the deferred outflow was \$130,725. The Financing Corporation completed these current refundings to reduce its total debt service payments over the next 11 years by approximately \$0.9 million and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$0.8 million.

The Series 2018 CAMLS Note is a direct borrowing from the bank. The Note is not secured by any assets pledged as collateral. The Note contains provisions that in an event of default the bank may accelerate payment for all principal and interest due under the Note.

The Financing Corporation 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 Financing Corporation the land on which the CAMLS facility is located. The University acquired land in the central business district of downtown Tampa, Florida. The Financing Corporation subleased the CAMLS facility to HPCC, pursuant to a facility lease agreement, until 2051, unless sooner terminated. HPCC makes rental payments to the Financing Corporation in an amount equal to 100% of principal and interest due on the Note, together with all other amounts due on the Note (note 8). The rental payments are recorded as capital leases receivable pursuant to GASB Statement No. 62 (note 7).

(iv) Series 2019 Research Laboratory and Office Building Note

On December 16, 2019, the Financing Corporation entered into a loan agreement with Truist Bank, evidenced by the Series 2019 Taxable Promissory Note (Series 2019 Research Note). The proceeds of the loan were used to finance a portion of the costs of the development of a mixed-use laboratory and office building to be located in the USF Research Park (Research Laboratory and

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Office Building). The Series 2019 Research Note was issued at a taxable fixed rate and is callable at the option of the Financing Corporation on any scheduled payment date at: 105% of principal outstanding if prepaid in the first year of the loan, 104% in the second year, 103% in the third year, 102% in the fourth year, 101% in the fifth year, and 100% if prepaid after the fifth year of the loan.

The Series 2019 Research Note is a direct borrowing from the bank. The Note is not secured by any assets pledged as collateral. The Note contains provisions that in an event of default the bank may accelerate payment for all principal and interest due under the Note.

The Financing Corporation entered into a sublease agreement, dated March 11, 2020, with the USF Research Foundation whereby the USF Research Foundation has leased to the Financing Corporation the land on which the Research Laboratory and Office Building will be developed. Pursuant to the master lease agreement, dated December 16, 2019, the Financing Corporation sub-leased the land and the improvements back to the USF Research Foundation until the earlier of the date all amounts due on the loan are paid in full or July 1, 2052, unless sooner terminated. The USF Research Foundation is permitted to take possession of the land and improvement upon completion of such improvements. The USF Research Foundation makes rent payments to the Financing Corporation in an amount equal to 100% of principal and interest due on the Note, together with all other amounts due on the Note (note 8). Upon completion of the improvements and USF Research Foundation taking possession, the rental payments will be recorded as capital leases receivable pursuant to GASB Statement No. 62 (note 7).

(d) Notes Payable – Schedule of Payments

The following is a schedule of future payments payable under the loan agreements as of June 30, 2021:

	Direct borrowings	
	Principal	Interest
Year ending June 30:		
2022	\$ 3,937,623	2,507,073
2023	4,157,316	2,358,398
2024	4,393,059	2,203,046
2025	4,640,557	2,035,654
2026	4,900,562	1,860,736
2027–2031	28,019,505	6,315,631
2032–2036	11,907,564	2,085,125
2037–2041	7,246,320	497,440
Total minimum payments	\$ 69,202,506	19,863,103

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(e) Bonds Payable

The Financing Corporation had bonds outstanding at June 30, 2021 as follows:

<u>Bonds</u>	<u>Amount of original issue</u>	<u>Amount outstanding</u>	<u>Interest rates (percent)</u>	<u>Issue/ acceptance date</u>	<u>Maturity date</u>
Series 2015 Marshall Center	\$ 31,595,000	26,595,000	3.65–5.00	2015	2036
Total	<u>\$ 31,595,000</u>	<u>26,595,000</u>			

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 Series 2005C Certificates were originally issued to finance the cost to lease purchase a new student center. The Bonds were issued at tax-exempt fixed interest rates ranging from 2.00% to 5.00%. 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 advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$418,352. This difference, reported in the accompanying financial statements as a deferred outflow, is being charged to operations through the year 2036 using the straight line method. At June 30, 2021, the unamortized balance of the deferred outflow was \$173,642. The Financing Corporation completed the advance refunding to reduce its total debt service payments over the next 21 years by approximately \$4.6 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$3.3 million.

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 Financing Corporation. The Bonds are not secured by any assets pledged as collateral. The trust indenture contains provisions that in an event of default, acceleration of the Bonds would not be a remedy of the trustee. Any financial consequences would be determined via court proceedings.

Pursuant to an operating agreement, the University operates the Marshall Student Center and makes payments to the Financing Corporation in an amount equal to 100% of principal and interest due on the Bonds, together with all other amounts due related to the Bonds (note 8). The payments are recorded as capital leases receivable pursuant to GASB Statement No. 62 (note 7).

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(f) Bonds Payable – Schedule of Payments

The following is a schedule of future payments payable under the bond agreements as of June 30, 2021:

	Principal	Interest
Year ending June 30:		
2022	\$ 1,125,000	1,242,770
2023	1,185,000	1,185,020
2024	1,240,000	1,124,395
2025	1,305,000	1,060,770
2026	1,365,000	994,020
2027–2031	7,940,000	3,845,725
2032–2036	10,135,000	1,611,903
2037–2039	2,300,000	43,125
Total minimum payments	26,595,000	\$ 11,107,728
Plus unamortized premium	1,732,760	
Bonds payable	\$ 28,327,760	

(g) Certificates of Participation Payable

The Financing Corporation had Certificates of participation (Certificates) outstanding at June 30, 2021 as follows:

Certificates	Amount of original issue	Amount outstanding	Interest rates (percent)	Issue/ acceptance date	Maturity date
Series 2015A Housing	\$ 23,640,000	8,900,000	2.63–5.00	2015	2023
Series 2012A Housing	77,015,000	75,365,000	4.00–5.00	2015	2035
Series 2018 Housing	30,140,000	30,140,000	4.00–5.00	2019	2048
Series 2019 Housing	15,510,000	15,380,000	3.25–5.00	2019	2040
Direct placements:					
Series 2003A Athletics	9,905,000	2,035,000	3.82	2011	2022
Series 2012B Housing	68,975,000	53,425,000	4.67	2012	2037
Series 2013A Health	37,920,000	31,610,000	2.71	2016	2036
Series 2013B Health	17,925,000	16,530,000	3.39	2018	2037
Total	\$ 281,030,000	233,385,000			

The Financing 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

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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 Financing Corporation entered into ground lease agreements with the University, whereby the University leased to the Financing Corporation the land on which all of the facilities are located. All of the rights, title, and interest of the Financing Corporation in the lease agreements, including the right of the Financing Corporation to receive lease payments, to use, sell, and relet properties, and to exercise remedies thereunder, and in the ground leases have been irrevocably assigned by the Financing Corporation to the Trustee, pursuant to assignment agreements.

All of the land on the University's campuses has been leased to the University by the State Board of Trustees of the Internal Improvement Trust Fund 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. UMSA makes basic rent payments to the Financing Corporation in an amount equal to 120% of principal and interest due on the Series 2013A Certificates, together with all other amounts due on the notes (note 8). The rental payments are recorded as capital leases receivable pursuant to GASB Statement No. 62 (see note 7).

(i) Series 2010A&B Housing Certificates

The Series 2010A&B Housing Certificates were issued on December 23, 2010 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.

The Series 2010A Certificates were issued at tax-exempt fixed interest rates ranging from 3.00-5.00%. The Certificates, matured in 2021.

(ii) Series 2019 Housing Refunding Certificates (refunded Series 2010B Housing Certificates)

The Series 2019 Housing Refunding Certificates were issued on January 16, 2019 to refund the outstanding Series 2010B Housing Certificates, in advance of the first optional prepayment date of the Series 2010B Certificates on July 1, 2020. The Series 2010B Certificates were issued at taxable fixed interest rates ranging from 8.35 - 8.55% under the Build America Bonds program. The Series 2019 Certificates were issued at a tax-exempt fixed interest rate ranging from 3.25 - 5.00%. The Certificates, which mature on July 1, 2039 and July 1, 2040, are callable at the option of the Financing Corporation beginning on January 1, 2029.

The Series 2019 Housing Refunding Certificates proceeds were used to fund an escrow account in an amount necessary to pay the outstanding principal of the Series 2010B Housing Certificates in

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the amount of \$15,140,000, plus accrued interest until the July 1, 2020 prepayment date. Pursuant to an escrow agreement, dated January 16, 2019, the Financing Corporation was discharged from its obligation to the holders of the Series 2010B Certificates. The escrow agent accepted the deposit of net proceeds to be held in an irrevocable escrow fund during the term of the agreement, for the benefit of the Certificate holders, and invested the funds in United States Treasury securities with terms necessary to pay the amounts of principal and interest due. The outstanding principal of the Series 2010B Housing Certificates in the amount of \$15,140,000, plus accrued interest, was paid in full on July 1, 2020. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$918,741. This difference, reported in the accompanying financial statements as a deferred outflow, is being charged to operations through the year 2040 using the straight line method. At June 30, 2021, the unamortized balance of the deferred outflow was \$611,179. The Financing Corporation completed the advance refunding to reduce its total debt service payments over the next 21 years by approximately \$2.7 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1.8 million.

The Series 2019 Housing Refunding Certificates are not secured by any assets pledged as collateral. The trust indenture contains provisions that in an event of default, the outstanding principal may be accelerated.

(iii) 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 Truist Bank, 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 Truist Bank. On March 15, 2011, Truist Bank 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 Certificates, which mature in 2022, are callable at the option of the Financing Corporation 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. The Series 2003A Athletics Certificates hold a tax-exempt fixed interest rate of 3.82%.

The Series 2003A Certificates are directly placed with the bank. The Certificates are not secured by any assets pledged as collateral. The trust indenture and credit agreement contain provisions that in an event of default, the outstanding principal and interest may be accelerated.

(iv) Series 2012B Housing Certificates

The Series 2012B tax-exempt, variable rate Refunding Certificates were issued and directly placed with Wells Fargo Bank, N.A. on October 1, 2012 to refund the Series 2007 Housing Certificates. The Series 2007 Housing Certificates were originally issued to finance the acquisition, construction

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and equipping of a housing facility on the University's Tampa Campus. The Refunding Certificates were issued at an amount equal to the par amount of the outstanding Series 2007 Housing Certificates. The Certificates, which mature in 2037, are subject to a mandatory purchase on October 1, 2024.

The Series 2012B Certificates are hedged to limit the effect of changes in interest rates (note 12). The Series 2012B Housing Certificates are directly placed with the bank. The Certificates are not secured by any assets pledged as collateral. The trust indenture and continuing covenants agreement contain provisions that in an event of default, the outstanding principal may be accelerated.

(v) *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 Series 2006A Health Certificates were originally issued to finance the acquisition and construction of two fully equipped medical office buildings (the North Clinic Facility and the South Clinic Facility). 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 Series 2013A Health Certificates are directly placed with the bank. The Certificates are not secured by any assets pledged as collateral. The trust indenture and continuing covenants agreement contain provisions that in an event of default, the outstanding principal may be accelerated.

(vi) *Series 2013B Health Certificates*

On July 2, 2018, the \$17,925,000 outstanding par amount of the Series 2013B tax-exempt Certificates were converted from a variable rate mode to a fixed rate mode and directly placed with Truist Bank through maturity in 2037. The associated interest rate swap, with an equal notional amount, expired on July 1, 2018. Prior to the conversion, the 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 Series 2007 Health Certificates were originally issued to finance the acquisition, construction, installation, and equipping of a medical office building (Medical Office Building). The Certificates were issued at an amount equal to the par amount of the outstanding Series 2007 Health Certificates.

The Series 2013B Health Certificates are directly placed with the bank. The Certificates are not secured by any assets pledged as collateral. The trust indenture and credit agreement contain provisions that in an event of default, the outstanding principal may be accelerated.

(vii) *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 Series 2005A Certificates were originally issued to retire or defease the University's prior housing financings. The Certificates mature in 2023 and are not

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subject to prepayment at the option of the Financing Corporation. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$997,085. This difference, reported in the accompanying financial statements as a deferred inflow, is being charged to operations through fiscal year 2024 using the straight line method. At June 30, 2021, the unamortized balance of the deferred inflow was \$70,263. The Financing Corporation completed the advance refunding to reduce its total debt service payments over the next 8 years by approximately \$3.3 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$3.1 million.

The Series 2015A Certificates are not secured by any assets pledged as collateral. The trust indenture contains provisions that in an event of default, the outstanding principal may be accelerated.

(viii) 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 originally issued 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.

The Series 2012A Certificates are not secured by any assets pledged as collateral. The trust indenture contains provisions that in an event of default, the outstanding principal may be accelerated.

(ix) Series 2018 Housing Certificates

The Series 2018 Housing Certificates were issued on January 16, 2019 to finance the cost to acquire, construct, and equip a student housing facility and dining facility shell on the University's St. Petersburg Campus. The Series 2018 Certificates were issued at a tax-exempt fixed interest rate ranging from 4.00 - 5.00%. The Certificates, which mature on July 1, 2043 and July 1, 2048, are callable at the option of the Financing Corporation on scheduled dates and in scheduled installments beginning on July 1, 2039.

The Series 2018 Certificates are not secured by any assets pledged as collateral. The trust indenture contains provisions that in an event of default, the outstanding principal may be accelerated.

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(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, 2021:

	Certificates of participation		Direct placements	
	Principal	Interest	Principal	Interest
Year ending June 30:				
2022	\$ 4,725,000	6,019,422	5,695,000	3,871,881
2023	4,885,000	5,819,250	5,880,000	3,652,479
2024	5,125,000	5,569,000	5,000,000	3,456,466
2025	5,665,000	5,299,250	5,140,000	3,264,427
2026	5,970,000	5,008,375	5,310,000	3,066,285
2027–2031	34,820,000	20,114,625	29,270,000	12,110,003
2032–2036	44,725,000	10,378,013	34,320,000	6,034,934
2037–2041	11,095,000	3,897,700	12,985,000	502,122
2042–2046	7,500,000	1,852,700	—	—
2047–2051	5,275,000	321,900	—	—
Total minimum payments	129,785,000	\$ <u>64,280,235</u>	103,600,000	<u>35,958,597</u>
Plus unamortized premium	<u>7,917,568</u>		<u>—</u>	
Certificates of participation payable	\$ <u>137,702,568</u>		<u>103,600,000</u>	

(i) Covenants

All of the Notes, Bonds, Certificates, and the Mortgage Loan are subject to certain covenants and other commitments. The Board of Directors has adopted a written Board of Trustees Debt Management Policy.

(j) Reserve Funds

The terms of the various bond agreements require the Corporation to set aside certain funds for debt service payments, debt service reserves, and for facility renewal and replacement reserves. Such funds amounted to \$40,020,147 at June 30, 2021 and are included in restricted cash and cash equivalents on the Statement of Net Position.

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June 30, 2021

(11) General and Administrative Expenses

General and administrative expenses for the year ended June 30, 2021 were as follows:

Insurance costs	\$	517,200
Trustee fees		23,393
Corporate expenses – Financing Corporation		84,427
Corporate expenses – Property Corporation		14,284
General and administrative expenses	\$	639,304

(12) Interest Rate Swap Agreements

The Financing Corporation has exclusively entered into “pay-fixed” interest rate swap agreements to limit its exposure to interest rate risk over the agreed term of the swap. The Financing Corporation has effectively fixed the interest rate on its variable rate debt with interest rate swaps. At June 30, 2021, the Financing Corporation had one outstanding interest rate swap agreement, the Series 2012B swap agreement.

The notional amount of the swap matched the principal amount on the associated Series 2012B Housing Certificates (note 10) through the scheduled termination date of the swap on July 1, 2037. Under the terms of the swap agreement, the Financing Corporation pays the swap counterparty a semi-annual fixed interest rate of 3.939% and receives monthly variable interest rate payments equal to 80% of one-month LIBOR.

The following table summarizes the Financing Corporation’s outstanding interest rate swap and the related fair value as of June 30, 2021:

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, 2021	Cash Flow
Series 2012B	Royal Bank of Canada	\$ 73,700,000	53,425,000	Sep 25, 2007	30	3.939	\$ (13,788,207)	\$ (2,085,525)

The fair value of the swap agreement is the estimated amount the Financing 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 value of the Financing Corporation’s swap agreement at June 30, 2021 was \$(13,966,342). In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, 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 value of the Financing Corporation’s swap agreement at June 30, 2021 of \$178,135 is included on the accompanying statement of net position. As the outstanding swap agreement met the criteria set forth under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as an effective hedging derivative

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instrument, hedge accounting was applied and, thus, the accumulated change in the interest rate swap agreement was reported as deferred outflow of resources on the statement of net position. The change in fair value for the year ended June 30, 2021, was \$4,336,071 which is recorded as an increase in deferred outflows of resources. The following is a schedule of expected future interest payments required under the swap agreement, as of June 30, 2021:

Year ending June 30:		
2022	\$	2,013,814
2023		1,920,262
2024		1,822,772
2025		1,722,328
2026		1,617,944
2027–2031		7,991,246
2032–2036		3,085,222
2037–2040		164,453
Total interest payments	\$	20,338,041

The interest rate swap agreement contains collateral provisions to mitigate counterparty credit risk. The provisions of the interest rate swap agreement relating to the Series 2012B Housing Certificates require the Financing 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 Financing 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, 2021, the total posted collateral was \$3,960,000. This amount is classified as security pledged to counterparty in the accompanying statement of net position at June 30, 2021.

Risks associated with interest rate swaps include counterparty risk, termination risk, rollover risk, basis risk, and tax event risk. The Financing 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 agreement, in the absence of a default, only the Financing Corporation has the right to terminate the swap contract.

The Board of Directors has adopted a written Board of Trustees 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 only engage counterparties with ratings of “AA-“ or better at the time the Financing Corporation enters into the agreement.

USF FINANCING CORPORATION
(A Component Unit of the University of South Florida)

Notes to Financial Statements

June 30, 2021

(13) Risk Management

The Financing Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to users of facilities; and natural disasters. The Financing Corporation manages these risks of loss by maintaining or causing to be maintained by the lessee of leased facilities, commercial insurance, and coverage provided by the University's participation in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Financing Corporation's facilities. There were no significant reductions in insurance coverage or settlements in excess of the insurance coverage in any of the three prior fiscal years.

(14) Subsequent Events

In connection with the preparation of the financial statements, management has evaluated and reviewed the affairs of the Financing Corporation for subsequent events that would impact the financial statements for the year ended June 30, 2021 through October 25, 2021, the date the financial statements were issued.

On September 21, 2021, the Financing Corporation Board of Directors approved a resolution authorizing the acceptance of the cancellation and release of the promissory note presented by INTO USF, Inc. (see note 5). The cancellation and release of the promissory note will be effective upon approval by the INTO USF, Inc. Board of Directors and execution of the form of cancellation and release.

On October 1, 2021, the Financing Corporation converted and reissued its Certificates of Participation, Series 2013A and Series 2013B, from tax-exempt interest rates to taxable interest rates. The conversion was necessitated as a result of the University entering into an amended and restated affiliation agreement, executed as of July 21, 2020, and effective on October 1, 2021, with Tampa General Hospital. Given the terms of the affiliation agreement and the rights to use the medical clinics and medical office building, that were initially financed with the Series 2013A and Series 2013B Certificates, the Corporation, based on advice of its special counsel, treated October 1, 2021 as a Determination of Taxability, as described in the Series 2013A and Series 2013B supplemental trust agreements, which caused the interest rates on the Series 2013A and Series 2013B Certificates to be automatically converted from tax-exempt interest rates to taxable interest rates. The Corporation and JPMorgan Chase Bank, N.A. have agreed that the Series 2013A Certificates shall bear interest at a taxable rate equal to 3.20% per annum through July 1, 2022 on which date the interest rate will adjust to 3.43% through July 1, 2026, the last day of the current long term rate period. The Corporation and STI Institutional & Government, Inc. (Truist Bank) have agreed that the Series 2013B Certificates shall bear interest at the taxable rate of 4.29% per annum through July 1, 2037, the final scheduled maturity date.



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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:

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 financial statements of USF Financing Corporation (the Corporation), a component unit of the University of South Florida, which comprise the statement of net position as of June 30, 2021 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 a 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 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 financial statements. 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

Tampa, Florida
October 25, 2021