

In the Opinion of Bond Counsel, under existing laws, regulations and court decisions, interest on the Bonds is excluded from the gross income of the owners thereof for federal income tax purposes and interest on the Bonds is also exempt from taxation under the laws of the State of Florida, except estate taxes imposed by Chapter 198, Florida Statutes, and net income and franchise taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations, all as defined in Chapter 220. Moreover, Bond Counsel is of the opinion that the interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal tax purposes), such interest is taken into account in determining adjusted current earnings for purposes of such alternative minimum tax. See "Tax Matters" herein.



\$35,000,000
University of Florida Research Foundation, Inc.
Capital Improvement Revenue Bonds,
Series 2003

Conversion Date: August 2, 2004

Due: September 1, 2033, as shown below

The University of Florida Research Foundation, Inc., Capital Improvement Revenue Bonds, Series 2003 (the "Bonds"), were originally issued on August 27, 2003, pursuant to a Trust Indenture, dated as of August 1, 2003, between the University of Florida Research Foundation, Inc. (the "Research Foundation") and J.P. Morgan Trust Company, National Association (successor to Bank One, National Association), as trustee (the "Trustee"), as amended and supplemented by the First Supplemental Trust Indenture, dated as of August 1, 2004, between the Research Foundation and the Trustee (collectively, the "Indenture"). The Research Foundation is a Florida not for profit corporation created for the purpose of supporting the University of Florida (the "University") and is certified by The University of Florida Board of Trustees (the "University Board") as a "University Direct Support Organization" as defined in Section 1004.28, Florida Statutes. The University is located in Gainesville, Florida and is a State University within the State of Florida. The Bonds were issued for the purpose of (a) financing a portion of the cost of the construction of an approximately 283,206 gross square foot genetics and cancer research facility (the "Project") on the main campus of the University and (b) paying the costs of issuance of the Bonds. The Project will be constructed and operated by the University and will be owned by the State of Florida pursuant to Chapter 253, Florida Statutes.

Under the terms of the Indenture, the Research Foundation has elected to convert the interest rate on the Bonds to a fixed rate on August 2, 2004 and to secure the Bonds with a financial guaranty insurance policy. The Bonds will be remarketed as fully registered Bonds, initially in the name of Cede & Co., as Registered Owner (the "Registered Owner") and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds, in the minimum denomination of \$5,000, plus any integral multiple of that sum in excess thereof. Interest on the Bonds will be paid to the Owner as of the close of business on the Record Date next preceding Interest Payment Date. The initial Interest Payment Date will be September 1, 2004.

Payment of principal of, and interest on, the Bonds when due will be insured by a municipal bond insurance policy to be issued by Ambac Assurance Corporation (the "Insurer") simultaneously with the delivery of the Bonds. See "BOND INSURANCE" herein.



As described in this Official Statement, the Bonds shall bear interest and be subject to optional and mandatory tender for purchase prior to maturity.

THE BONDS CONSTITUTE GENERAL OBLIGATIONS OF THE RESEARCH FOUNDATION AND ADDITIONALLY ARE PAYABLE FROM AND SECURED BY THE PLEDGE OF AND LIEN UPON THE TRUST ESTATE AS PROVIDED IN THE INDENTURE. NO COVENANT OR AGREEMENT IN THE BONDS, THE INDENTURE OR THE OTHER BOND DOCUMENTS AND NO OBLIGATION THEREIN IMPOSED UPON THE RESEARCH FOUNDATION SHALL CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE UNIVERSITY, THE UNIVERSITY BOARD, THE BOARD OF GOVERNORS OF THE STATE OF FLORIDA, THE STATE BOARD OF EDUCATION, THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF. THE RESEARCH FOUNDATION HAS NO TAXING POWER.

\$13,400,000 Serial Bonds

<u>Due September 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>
2006	\$800,000	2.125%	100.00
2007	\$800,000	2.450%	100.00
2008	\$800,000	2.850%	100.00
2009	\$800,000	3.150%	100.00
2010	\$800,000	3.350%	100.00
2011	\$900,000	3.550%	100.00
2012	\$1,000,000	3.750%	100.00
2013	\$1,000,000	3.900%	100.00
2014	\$1,000,000	4.000%	100.00
2015	\$1,000,000	4.150%	100.00
2016	\$1,100,000	4.300%	100.00
2017	\$1,100,000	4.400%	100.00
2018	\$1,100,000	4.500%	100.00
2019	\$1,200,000	4.550%	100.00

\$9,500,000 5.000% Term Bonds Due September 1, 2026 – Price 100.00

\$1,500,000 5.050% Term Bonds Due September 1, 2027 – Price 100.00

\$10,600,000 5.125% Term Bonds Due September 1, 2033 – Price 100.00

The Bonds are reoffered when, as and if issued and delivered to Lehman Brothers, subject to delivery of the approving opinion of Smith Hulsey & Busey, Jacksonville, Florida, Bond Counsel and Disclosure Counsel, and certain other conditions. Certain legal matters will be passed upon for the Research Foundation by the General Counsel of the University of Florida, Gainesville, Florida. It is expected that the Bonds in definitive form will be available for delivery through DTC in New York, New York, on or about August 2, 2004.

Lehman Brothers

The date of this Official Statement is July 30, 2004

No dealer, broker, salesman or other person has been authorized by the Research Foundation, the Credit Facility Provider or the Remarketing Agent to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell nor the solicitation of an offer to buy, nor shall there be any sale of, the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the Research Foundation and the Credit Facility Provider and other sources, which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement, nor any sale made hereunder, shall under any circumstances create an implication that there has been no change in the affairs of the Research Foundation since the date hereof. The Remarketing Agent has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission (the "Commission") or with any state securities agency. The Bonds have not been approved or disapproved by the Commission or any state securities agency, nor has the Commission or any state securities agency passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

In connection with this reoffering, the Remarketing Agent may overallocate or effect transactions that stabilize or maintain the market price of the Bonds at a level that might not otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING AMBAC ASSURANCE CORPORATION (THE "INSURER") CONTAINED UNDER THE CAPTION "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – DESCRIPTION OF FINANCIAL GUARANTY INSURANCE POLICY FOR THE BONDS" AND THE DESCRIPTION OF THE INSURER HEREIN AND IN APPENDIX E, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE INSURER, AND THE INSURER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE BONDS; OR (III) THE TAX STATUS OF THE INTEREST ON THE BONDS.

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UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.

OFFICIAL STATEMENT

Relating to

\$35,000,000

**University of Florida Research Foundation, Inc.
Capital Improvement Revenue Bonds,
Series 2003**

INTRODUCTION

This Official Statement, including the cover page and Appendices hereto (the "Official Statement"), is provided to furnish information with respect to the sale and delivery by the University of Florida Research Foundation, Inc. (the "Research Foundation") of its Capital Improvement Revenue Bonds, Series 2003, in an aggregate principal amount of thirty-five million dollars (\$35,000,000) (the "Bonds") pursuant to a Trust Indenture, dated as of August 1, 2003 between the University of Florida Research Foundation, Inc. (the "Research Foundation") and J.P. Morgan Trust Company, National Association (successor to Bank One, National Association), as trustee (the "Trustee"), as supplemented by the First Supplemental Trust Indenture, dated as of August 1, 2004, between the Research Foundation and the Trustee (collectively, the "Indenture"). All capitalized terms used in this Official Statement and not otherwise defined herein shall have the same meanings as in the Indenture (as defined below). The Research Foundation is a Florida not for profit corporation created for the purpose of supporting the University of Florida (the "University") and is certified by The University of Florida Board of Trustees (the "University Board") as a "University Direct Support Organization" as defined in Section 1004.28, Florida Statutes. The University is located in Gainesville, Florida is a component of the State University System of the State of Florida. The issuance of the Bonds was authorized by the State Board of Education of the State of Florida (the "State Board") pursuant to a resolution adopted by the State Board on June 17, 2003, and was authorized by the Board of Governors of the State of Florida (the "Board of Governors") pursuant to a resolution adopted by the Board of Governors on July 23, 2003. The Bonds were issued for the purpose of (a) financing a portion of the cost of the construction of an approximately 283,206 gross square foot genetics and cancer research facility (the "Project") on the main campus of the University and (b) paying the costs of issuance of the Bonds. The Project will be constructed and operated by the University and will be owned by the State of Florida pursuant to Chapter 253, Florida Statutes.

The Bonds constitute general obligations of the Research Foundation and additionally are payable from the pledge of and lien upon the trust estate as provided in the Indenture. See "Security for the Bonds" for further information.

Ambac Assurance Corporation (the "Insurer") has committed to issue a municipal financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") guaranteeing the scheduled payment of the principal of and the interest on the Bonds when due. See "Sources of Payment and Security for the Bonds – Description of Financial Guaranty Insurance Policy for the Bonds" and APPENDIX E – "Specimen of Financial Guaranty Insurance Policy."

THE BONDS DO NOT CONSTITUTE AND SHALL NOT BE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION THEREOF AND NEITHER THE STATE OF FLORIDA NOR ANY POLITICAL SUBDIVISION THEREOF SHALL BE LIABLE THEREON. THE BONDS

DO NOT GIVE RISE TO A PECUNIARY LIABILITY OR CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF. THE ISSUER HAS NO TAXING POWER.

It is anticipated that the Bonds will be issued in the form of one fully registered certificate will be issued for each maturity of the Bonds, registered in the name of Cede & Co., as nominee of DTC, and the Bonds will remain in book entry form for the life thereof. See "Book-Entry Only System" herein.

Brief descriptions of the Bonds, the Insurer, the Financial Guaranty Insurance Policy, the Trustee, the Underwriter, the University and the Research Foundation are included herein. Such descriptions and information do not purport to be comprehensive or definitive. All statements made herein with respect to any document referred to herein are qualified in their entirety by reference to such documents, and, in particular, statements made herein regarding the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture and the information with respect thereto included in the aforementioned documents, copies of all of which are available for inspection at the designated corporate trust office of the Trustee located in Jacksonville, Florida.

INTEREST RATE CONVERSION

The Bonds reoffered hereby were initially issued on August 27, 2003. Under the terms of the Indenture, the Research Foundation has elected to convert the interest rate on the Bonds to a Fixed Rate on August 2, 2004 (the "Conversion Date") and to secure the payment of the principal of and interest on the Bonds with a financial guaranty insurance policy. From August 2, 2004 through the date of maturity, the Bonds will accrue interest at the Fixed Rates as set forth on the cover of this Official Statement.

THE BONDS

General

The interest rate on the Bonds will be converted to a Fixed Rate on August 2, 2004. Interest on the Bonds will be payable on September 1, 2004, and semiannually each March 1 and September 1 thereafter prior to maturity or redemption at the rates as set forth on the cover of this Official Statement. The Bonds shall be remarketed solely in fully registered form, and shall initially be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), without coupons. The Bonds shall be in denominations of \$5,000 or any integral multiple thereof not exceeding for each maturity the aggregate principal amount of the Bonds maturing in any one year (an "Authorized Denomination").

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE FOR DTC, REFERENCES HEREIN TO BONDHOLDERS, HOLDERS OR OWNERS OF THE BONDS (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

The information contained in the following paragraphs of this subsection “Book-Entry-Only System” has been extracted from a schedule prepared by DTC entitled “SAMPLE OFFICIAL STATEMENT LANGUAGE DESCRIBING BOOK ENTRY ONLY ISSUANCE.” The Research Foundation, the Insurer and the Underwriter make no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement amount Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct Participants’ and Indirect Participants’ respective records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owners entered into the transactions. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the DTC Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and

Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The Trustee, so long as a book-entry system is used for the Bonds, will send any notice of redemption, mandatory tender or other notices with respect to Bonds only to DTC and certain national information services. If less than all the Bonds are to be redeemed upon any redemption of Bonds, DTC's practice is to determine by lot the amount of the interest of each DTC Direct Participant in such Bonds to be redeemed. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify the Beneficial Owners, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' account upon DTC's receipt of funds and corresponding detail information from the Issuer or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, nor its nominee, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, and disbursement of such payments to the Beneficial Owners shall be responsibility of the Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Direct Participant, to the Trustee or Remarketing Agent and shall effect delivery of such Bonds by causing the Direct Participant to transfer such Participant's interest in the Bonds, on DTC's records, to the Trustee. Any requirement for physical delivery of Bonds in connection with the demand for purchase or a mandatory purchase will be effected when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

For every transfer and exchange of the Bonds, the Trustee, DTC and the Direct Participants may charge the Beneficial Owner a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

THE RESEARCH FOUNDATION, THE TRUSTEE AND THE INSURER MAY TREAT CEDE & CO. AS THE OWNER OF THE BONDS FOR ALL PURPOSES AND DO NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO ANY MATTERS INCLUDING, WITHOUT LIMITATION, (A) THE ACCURACY OF ANY

RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (B) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF AND PREMIUM, IF ANY, INTEREST ON, OR PURCHASE PRICE WITH RESPECT TO, THE BONDS; (C) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO HOLDERS; (D) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC, OR ITS NOMINEE, CEDE & CO., AS HOLDER OR PURSUANT TO THE OMNIBUS PROXY.

The Research Foundation, the Trustee, the Underwriter and the Insurer cannot and do not give any assurances that DTC, the Direct Participants or others will distribute (i) payments of debt service on the Bonds paid to DTC or its nominee, Cede & Co., as the registered owner, or (ii) any redemption, mandatory tender or other notices, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will service and act in a manner described in this Official Statement. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but none of the Research Foundation, the Trustee, the Underwriter or the Insurer is responsible for the accuracy or completeness thereof.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities-depository is not obtained, certificates will be required to be printed and delivered.

The Research Foundation may decide to discontinue use of the system of book-entry transfers through DTC (or successor securities depository). In that event, bond certificates (the "Replacement Bonds") will be printed and delivered to the Beneficial Owners of the Bonds. The Bonds represented by Replacement Bonds will be transferable only upon presentation and surrender to the Trustee, together with an assignment duly executed by the Beneficial Owner of the Replacement Bonds, or by its representative in form satisfactory to such Trustee and containing information required by the Trustee in order to affect such transfer.

Interest Payments

Interest on the Bonds will be calculated on the basis of a 360 day year of twelve (12) thirty (30) day months. Interest on the Bonds will be paid on each March 1 and September 1. Interest on the Bonds is payable to the person or entity which is, as of the 15th day of the month prior to each interest payment date, whether or not a Business Day (the "Record Date"), the registered owner of record.

Redemption Provisions

Optional Redemption

(a) The Bonds maturing on September 1 in the years 2006 through 2014, inclusive, are not subject to redemption prior to their respective stated dates of maturity. Bonds maturing in the years September 1, 2015 through September 1, 2019 are, at the option of the Research Foundation, subject to redemption prior to maturity, in whole, or in part (and if in part by lot or other method deemed fair and appropriate by the Trustee), on any date on or after September 1, 2014, at a redemption price equal to par plus accrued interest to the redemption date;

(b) The Bonds, or portions thereof, maturing on September 1, 2026, September 1, 2027 and September 1, 2033, are subject to redemption prior to their respective stated maturity dates, at the option of the Research Foundation, in whole or in part (and if in part by lot or other method deemed fair and appropriate by the Trustee), on any date on or after September 1, 2009, at a redemption price equal to par plus accrued interest to the redemption date.

Mandatory Redemption of Term Bonds. The Bonds maturing on September 1, 2026 will be subject to mandatory redemption prior to maturity at a redemption price of par plus accrued interest to the redemption date, on September 1 in the years and in the principal amounts for each year as set forth below:

<u>Year</u>	<u>Principal Amount</u>
2020	\$1,200,000
2021	\$1,300,000
2022	\$1,300,000
2023	\$1,400,000
2024	\$1,400,000
2025	\$1,400,000
2026*	\$1,500,000

* Maturity

The Bonds maturing on September 1, 2033 will be subject to mandatory redemption prior to maturity at a redemption price of par plus accrued interest to the redemption date, on September 1 in the years and in the principal amounts for each year as set forth below:

<u>Year</u>	<u>Principal Amount</u>
2028	\$1,600,000
2029	\$1,700,000
2030	\$1,700,000
2031	\$1,800,000
2032	\$1,900,000
2033*	\$1,900,000

*Final Maturity

Extraordinary Optional Redemption. The Bonds may be redeemed at a price equal to 100% of the principal amount of the Bonds being redeemed plus accrued interest thereon to the date of

redemption in whole at the option of the Research Foundation at any time after the occurrence of any of the following:

(a) the Project or a substantial portion of the Project shall have been damaged or destroyed to such an extent that, in the opinion of the Research Foundation, (i) the required restoration and repair could not reasonably be expected to be completed within a period of six (6) months after commencement of restoration or repair, (ii) the Research Foundation is prevented or would likely be prevented from using the Project or a substantial portion of the Project for its normal purposes for a period of six (6) months or more or (iii) the cost of restoration and repair would not be economically practical or desirable; or

(b) title to the whole or any part of the Project or the use or possession thereof shall have been taken or condemned by a competent authority to such an extent that, in the opinion of the Research Foundation, the Research Foundation is prevented or would likely be prevented from using the Project for its normal purposes for a period of not less than six (6) months.

Mandatory Redemption Upon Determination of Taxability. In the event of a Determination of Taxability, the Bonds shall be redeemed on a date determined by the Trustee that is within one hundred twenty (120) days of such determination, as a whole, at a Redemption Price equal to the principal amount thereof, plus accrued interest to the redemption date, provided that no such redemption is required to be made if and so long as such Determination is being appealed or otherwise contested in good faith by the Research Foundation; and provided, further, that such contest shall not have continued for longer than two (2) years after the occurrence of such Determination of Taxability.

Selection of Bonds To Be Redeemed. If fewer than all of the Bonds are to be redeemed, the Trustee will select Bonds by lot or other method as it deems fair and appropriate. The Trustee will make the selection from Bonds not previously called for redemption. For this purpose, the Trustee will consider the Bonds in a denomination larger than the minimum Authorized Denomination to be separate Bonds each in the minimum Authorized Denomination.

Notice of Redemption. The Trustee shall, upon the written request and direction of the Research Foundation, give notice of redemption to DTC regarding any Bonds designated for redemption. The notice will identify the Bonds or portions of Bonds to be redeemed and will state (1) the redemption date and the redemption price; (2) the identification, including complete designation of the series or sub-series of which the Bond is a part and CUSIP number; (3) if less than all outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts), maturity dates and interest rates of the Bonds to be redeemed; (4) that on the redemption date the redemption price will become due and payable upon each such Bond and that interest thereon shall cease to accrue from and after said date provided that sufficient moneys to pay the principal, premium, if any, and accrued interest on the Bonds to be redeemed is available to the Trustee on the redemption date or else such redemption shall not occur; (5) the address where such Bonds are to be surrendered to the Paying Agent for payment of the redemption price and the name of a contact person and his or her telephone number.

At least two (2) days before the date of the mailing required by the first paragraph of this Section, such redemption notice shall be given by (i) registered or certified mail, postage prepaid; (ii) overnight delivery service, or (iii) facsimile transmission to two of the following services selected by the Research Foundation and at the address provided to the Trustee by the Research Foundation:

- 1) Financial Information, Inc.'s Financial Daily Called Bond Service

- 2) Interactive Data Corporation's Bond Service
- 3) Kenny Information Service's Called Bond Service
- 4) Standard & Poor's Called Bond Record; or any successor services thereof.

Failure to give notice of redemption to DTC or the information services or any defect in such notice shall not affect the validity of the redemption of any other Bonds.

Acceleration

On any day on which the Trustee is made aware of an Event of Default relating to certain bankruptcy matters affecting the Research Foundation or the Trustee receives written notice from the Insurer that an "event of default" has occurred and such notice instructs the Trustee to declare the principal of and interest on the Bonds immediately due and payable, then in any such case, the Trustee will declare the principal of and interest on the Bonds to be due and payable on such day and all interest thereon will cease to accrue ("an acceleration"). If any other Event of Default has occurred and is continuing, the Trustee by notice to the Research Foundation (or, acting through DTC) the beneficial owners of at least 25% in principal amount of the Bonds by notice to the Research Foundation and the Trustee) may declare the principal and accrued interest to the date of acceleration of the Bonds to be due and payable immediately; provided that so long as no Bond Insurer Default has occurred and is continuing, the Trustee will not declare the Bonds to be due and payable without first obtaining the Insurer's prior written consent.

No Additional Bonds

No additional Bonds may be issued under the Indenture.

SOURCE OF PAYMENT AND SECURITY FOR THE BONDS

General Obligation of the Research Foundation

THE BONDS CONSTITUTE GENERAL OBLIGATIONS OF THE RESEARCH FOUNDATION AND ADDITIONALLY ARE PAYABLE FROM THE PLEDGE OF AND LIEN UPON THE TRUST ESTATE AS PROVIDED IN THE INDENTURE. NO COVENANT OR AGREEMENT IN THE BONDS, THE INDENTURE OR THE OTHER BOND DOCUMENTS AND NO OBLIGATION THEREIN IMPOSED UPON THE RESEARCH FOUNDATION SHALL CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE UNIVERSITY, THE UNIVERSITY BOARD, THE BOARD OF GOVERNORS OF THE STATE OF FLORIDA, THE STATE BOARD OF EDUCATION, THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF. THE RESEARCH FOUNDATION HAS NO TAXING POWER.

Memorandum of Agreement

On the date that the Bonds are converted to bear interest at the Fixed Rate, the Research Foundation and the University Board will execute and deliver a Memorandum of Agreement (the “MOA”), pursuant to which the Research Foundation and the University Board agree that the debt service on the Bonds will be repaid from legally available revenues arising from sponsored research activities, including (a) recovered indirect costs of research and (b) the licensing of intellectual property (the “Revenues”). In each year that any Bonds are outstanding the respective parties shall, as a first priority, budget and apply the Revenues sufficient to pay debt service on the Bonds. The MOA only extends to the Revenues and does not constitute a general pledge of other available revenues and does not constitute an agreement by any other entity, including the State of Florida, the State Board of Education or the Florida Board of Governors and does not constitute an indirect pledge or lien on any property of the State of Florida or a pledge of the faith and credit of the State of Florida. Furthermore, the College of Medicine, College of Liberal Arts and Sciences and the Institute of Food and Agricultural Services at the University have acknowledged the MOA.

Parity Obligations Covenant

The Research Foundation has consented and agreed in the Indenture to not issue additional indebtedness without the consent of the Insurer unless the ratio of pro-forma debt to undesignated unrestricted net assets is not greater than 75% at the time the additional indebtedness is incurred.

Description of Financial Guaranty Insurance Policy for the Bonds

The following information has been furnished by the Insurer for use in this Preliminary Official Statement. Reference is made to APPENDIX E - “Specimen of Financial Guaranty Insurance Policy” for a specimen of the policy.

Payment Pursuant to Financial Guaranty Insurance Policy

The Insurer has made a commitment to issue the Financial Guaranty Insurance Policy relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, the Insurer will pay to The Bank of New York, in New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Research Foundation (as such terms are defined in the Financial Guaranty Insurance Policy and herein). The Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which the Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by the Insurer.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, the Insurer will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Bond that has become Due for Payment and that is made to a Holder by or on behalf of the Research Foundation has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

- (1) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
- (2) payment of any redemption, prepayment or acceleration premium.
- (3) nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of the Insurer to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to the Insurer.

Upon payment of the insurance benefits, the Insurer will become the owner of the Bonds, appurtenant coupons, if any, or right to payment of principal or interest on such Bonds and will be fully subrogated to the surrendering Holder's rights to payment.

The insurance provided by the Financial Guaranty Insurance Policy is not covered by the Florida Insurance Guaranty Association.

Ambac Assurance Corporation

The Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **\$7,670,000,000** (unaudited) and statutory capital of **\$4,683,000,000** (unaudited) as of **March 31, 2004**. Statutory capital consists of The Insurer's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to the Insurer.

The Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Insurer will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by the Insurer under policy provisions substantially identical to those contained in its Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Research Foundation.

The Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Preliminary Official Statement other than the information supplied by the Insurer and presented under the heading “Description of Financial Guaranty Insurance Policy for the Bonds” and APPENDIX E - “Specimen of Financial Guaranty Insurance Policy” hereto.

Available Information

The parent company of the Insurer, Ambac Financial Group, Inc. (the “Company”), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). These reports, proxy statements and other information can be read and copied at the SEC’s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the “NYSE”), 20 Broad Street, New York, New York 10005.

Copies of the Insurer’s financial statements prepared in accordance with statutory accounting standards are available from the Insurer. The address of the Insurer’s administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Insurer with the SEC (File No. 1-10777) are incorporated by reference in this Preliminary Official Statement:

- (1) The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;
- (2) The Company’s Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004;
- (3) The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;

All documents subsequently filed by the Insurer pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in “Available Information.”

UNIVERSITY RESEARCH ACTIVITIES

The University is the State's oldest and largest university, the only member of the prestigious Association of American Universities in the State and one of only 62 members in North America. The University is also recognized by the Carnegie Commission on Higher Education as one of the nation's leading research universities. The University's research awards have risen steadily over the decades to a record of over \$458 million in the fiscal year 2002-03 (the latest year for which information is available). The National Institutes of Health is the University's largest funding source, awarding \$104.4 million in the fiscal year 2002-03, followed by the National Science Foundation at \$40.7 million, the U.S. Department of Agriculture at \$26.4 million and the Department of Defense at \$24.2 million. Federal Funds account for 63%, or \$289.3 million, of the University's total, with the rest about evenly divided between state, industry and private foundations. Funding from private foundations has been growing as a source of research funds, reaching a record \$51.3 million in 2002-03.

Although the University's Health Science Center received 55% of the University's research funds in fiscal year 2002-2003, the other major units continue to generate significant awards, demonstrating the comprehensiveness that has been a hallmark of the University's research enterprise. The Institute of Food and Agricultural Sciences received \$65.3 million and the College of Liberal Arts and Sciences received \$44.3 million.

Royalty and licensing income reached a record \$34.4 million in fiscal year 2002-03, a 7.8% increase over the previous year. The University's Office of Technology (the "OTL") Licensing secured 264 invention disclosures from faculty members in fiscal year 2002-03, a 90% increase over the previous year. The OTL has executed 112 licenses over the past two years, more than the previous six years combined.

Research Proposals Submitted Fiscal Years 2000-2003

<u>Fiscal Year</u>	<u>Number of Proposals</u>
1999-2000	4,058
2000-2001	4,195
2001-2002	4,405
2002-2003	4,199

In Fiscal Year 2002-2003, the federal government accounted for 63.0% of the University's research awards, while state and local government provided 10.0% and 27.0% came from private and other sources. Federal funding for that year was derived from the National Institute of Health (36.0%), National Science Foundation (14%), Department of Agriculture (9.0%), Department of Defense (8.0%), Health and Human Services Department (8.0%), Health Resources and Services Administration (4.0%), Department of Education (4.0%), NASA (4.0%), and other agencies (13.0%). In Fiscal Year 2002-2003, the most recent year available, the Health Science Center, Institute of Food and Agricultural Services and the College of Liberal Arts and Sciences accounted for most of the awards, representing 55.0%, 14.0% and 10.0%, respectively.

History of Research Awards by Funding Source Fiscal Years 2000-2003

<u>Year</u>	<u>Federal</u>	<u>State/Local</u>	<u>Business & Industry</u>	<u>Others</u>	<u>Total</u>
2000	175.1M	46.5M	48.0M	69.8M	339.4M
2001	227.1M	43.2M	59.2M	50.0M	379.5M
2002	268.1M	51.6M	53.9M	63.6M	437.2M
2003	289.3M	43.8M	54.4M	70.6M	458.1M

Research awards granted in a particular year may be expended over several years. Thus, a review of the amounts expended is an indication of the University's ongoing commitment to research.

History of Research Expenditures Fiscal Years 2000-2003

<u>Fiscal Year</u>	<u>Amount</u>
1999-2000	\$294.7M
2000-2001	\$348.9M
2001-2002	\$369.0M
2002-2003	\$412.0M

The University's research activities have resulted in the issuance of licenses and patents, as well as disclosure of numerous inventions in recent years. Since 1992, approximately 528 United States patents have been issued to the University. It should be noted that most of the patents have not been commercialized. The following table indicates the outcomes of University research over the past five fiscal years.

Five Year History of Patent & Licensing Activity

<u>Fiscal Year</u>	<u>Licenses Generating Income</u>	<u>U.S. Patents Issued</u>	<u>U.S. Patent Applications</u>	<u>Invention Disclosures</u>
1998-1999	49	51	106	134
1999-2000	63	52	122	166
2000-2001	84	68	116	196
2001-2002	100	59	185	191
2002-2003	119	52	114	264

THE RESEARCH FOUNDATION

Introduction

The University established the Research Foundation in June 1986 to promote, encourage and provide assistance to the research activities of the University faculty, staff and students. Incorporated in the State of Florida in August 1986, the not-for-profit organization provides a means by which research can be conducted flexibly and efficiently and by which discoveries, inventions, processes and work products of University faculty, staff and students can be transferred from the laboratory to the public. Funds generated by licensing such discoveries are used to enhance research at the University.

Research Foundation Board of Directors as of July 12, 2004

The Research Foundation's Board of Directors consists of twelve members, including the following eight University officials: the President, Provost/Senior Vice President for Academic Affairs, Vice President for Research, Vice President for Finance and Administration, Senior Vice President for Agriculture and Natural Resources, Senior Vice President for Health Affairs, Dean of the College of Engineering and Dean of the College of Liberal Arts and Sciences. The Research Foundation's organizational documents provide that the University Board appoints one member and the University President nominates and the Research Foundation Board elects the remaining three members.

Dr. J. Bernard Machen, Chairman President, University of Florida	226 Tigert Hall PO Box 113150 Gainesville, FL 32611
Dr. Winfred M. Phillips, President Vice President for Research	223 Grinter Hall PO Box 115500 Gainesville, FL 32611
Dr. David R. Colburn Provost and Senior Vice President for Academic Affairs	235 Tigert Hall PO Box 113175 Gainesville, FL 32611
Dr. Douglas Barrett Senior Vice President for Health Affairs	H102, HSC PO Box 100014 Gainesville, FL 32610
Mr. Manuel A. Fernandez 941-385-Member, Board of Trustees Gartner Group, Chairman	12600 Gateway Blvd. Fort, Myers, FL 33913
Dr. John Kraft Dean, Business Administration	100 Bryan Hall PO Box 117150 Gainesville, FL 32611
Dr. Richard Jones, Interim Senior Vice President for Agriculture and Natural Resources	1008 McCarty Hall PO Box 110180 Gainesville, FL 32611

Dr. Pramod P. Khargonekar Dean, College of Engineering	300 Weil Hall PO Box 116550 Gainesville, FL 32611
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Mr. Ed Poppell Vice President for Finance & Administration	204 Tigert Hall PO Box 113100 Gainesville, FL 32611
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The Honorable Carolyn Roberts President and Broker Roberts Real Estate, Inc.	115 NE 8 th Avenue Ocala, FL 34470
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Dr. Neil S. Sullivan Dean, College of Liberal Arts and Sciences	2014 Turlington Hall PO Box 117300 Gainesville, FL 32611
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Open Board Seat – Formerly Mr. Sam Goforth

Officers as of July 12, 2004

Dr. Winfred M. Phillips, President Vice President for Research and President, Research Foundation	223 Grinter Hall PO Box 115500 Gainesville, FL 32611
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Mr. Michael V. McKee University Controller and Treasurer, Research Foundation	111 Tigert Hall PO Box 113200 Gainesville, FL 32611
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Mr. Frank P. Ward Business Manager and Secretary, Research Foundation	274 Grinter Hall PO Box 115500 Gainesville, FL 32611
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Tom Walsh Director of Research	274 Grinter Hall PO Box 115500 Gainesville, FL 32611
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David Day Director of Technology Licensing	274 Grinter Hall PO Box 115500 Gainesville, FL 32611
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Intellectual Property Policy

Assignment of Intellectual Property

University patents, copyrights, and trademarks are governed by Section 1004.23, Florida Statutes. This statute provides, in part, that each university is authorized, in its own name, to secure patents, copyrights, and trademarks on work products of University personnel and to enforce its rights therein. In addition, the statute provides that a university may “license, lease, assign, or otherwise give written consent to any person, firm, or corporation for the manufacture or use thereof, on a royalty basis or for such other consideration as the university shall deem proper.” Proceeds from licensing the university’s intellectual property must be used to support the research and sponsored training activities of the University.

As permitted by Section 1004.23, Florida Statutes, the University assigns the rights in its intellectual property to the Research Foundation to manage on behalf of the University. The assignments of intellectual property enable the Research Foundation to provide a means by which discoveries, inventions, processes and work products of faculty, staff and students may be patented, developed, applied, and utilized in order to make the results of such research available to the public and to make funds available for further research at the University.

Distributions of Net Income From Works and Inventions

With regard to any work or invention owned by the University or the Research Foundation, net income (as defined in the University's Intellectual Property Policy) less any foreseeable development expenses the University or the Research Foundation deems necessary to defend or maintain the work or invention ("net adjusted income") is distributed as follows:

For net adjusted income up to \$500,000: (Schedule A)

40%	individual creator(s)
10%	program(s)*
7 ¹ / ₂ %	creator(s)'s department
7 ¹ / ₂ %	creator(s)'s college
35%	The Office of Research and Graduate Programs ("ORGP") or the Research Foundation

For net adjusted income \$500,000 or over: (Schedule B)

25%	individual creator(s)
10%	program(s)*
10%	creator(s)'s department
10%	creator(s)'s college
45%	ORGP or the Research Foundation

*The "Programs" are defined as specific university research programs within which an invention or work product was developed.

Notwithstanding the above, all net adjusted income from the Research Foundation's sale of equity interests originally paid to the Research Foundation by a licensee are distributed pursuant to Schedule B.

Equity in lieu of Cash Payment

The Research Foundation may elect to accept equity in lieu of cash payments for a license fee or royalty. The decision to accept equity in lieu of cash is made at the sole discretion of the Research Foundation and does not constitute an obligation on behalf of the Research Foundation to make a disbursement of equity to the creator(s) or to department(s) and college(s) until the equity is sold.

The Research Foundation owns and exercises all rights of ownership, including the rights to vote equity interests on all matters which are subject to the consent or approval of the holders of similar equity interests (including voting such equity interests for the election of the directors, approving or disapproving amendments to articles of incorporation, etc.). The Research Foundation retains and owns the equity interest until the sale or exchange of the interest. The decision as to when to sell or exchange equity resides with the Research Foundation Board of Directors, in its sole discretion.

When selling, exchanging or otherwise disposing of any equity interests, the Research Foundation may agree to pay such commissions or other fees or charges and may incur such expenses as it shall determine at its sole discretion. All such expenses are considered development expenses in determining net income to be distributed.

Investment Policy

Introduction

The Research Foundation was created in 1986 to support research at the University. To accomplish its mission, it may invest in securities issued by public and private entities and may invest in real assets. Any profits earned on its holdings are used to support research at the University.

Grants and contracts from private foundations and companies may be administered through the Research Foundation. In addition, the Research Foundation is a repository for the University's intellectual property and receives license fees, royalties, and securities from companies that license University technology. It may also hold securities from other University initiatives and from the Research Foundation investments.

The purpose of this investment policy is to define appropriate securities for investment by the Research Foundation and to set procedures for implementation of investment decisions.

Definitions

For purposes of development of the investment policy, sources of income to the Research Foundation are divided into two categories:

"Restricted Funds" are grant and contract funds that are received in support of research under the control of the principal investigator, and that portion of grant and contract overhead that is allocated to Departments, Centers, and Colleges. These funds also include the inventor's, Departments, and College's portions of license income. These funds are effectively held in trust for the recipients and are not available for discretionary spending by the Research Foundation.

"Unrestricted Funds" include royalty income, license fees, fees charged for administration, proceeds from the sale of equities, interest and dividend income earned by the Research Foundation, and overhead from the Research Foundation contracts and grants less funds set aside to meet the costs of the Research Foundation, and funds allocated to inventors, and their Departments, and Colleges. These funds may be used to support research as directed by the President and the Research Foundation Board.

Investments of the Research Foundation owned securities and other assets are made to provide additional earnings to the Research Foundation. Earnings on investments become Unrestricted Funds.

The Finance Committee is appointed by the Research Foundation Board to advise the Research Foundation Board and the President of the Research Foundation on all financial matters related to the Research Foundation including annual budgeting, equity holding fund management, securities liquidation, license agreements, insurance needs, audits and financial statements, taxes, and other issues relating to the financial stability of the Research Foundation. The committee may also be called upon for advice in the consideration of major expenditures and capital outlays. The Investment Subcommittee of the Finance Committee, as constituted by the by-laws, is responsible for monitoring this policy and advises the Finance Committee, the

Research Foundation Board, and the President of the Research Foundation on fund management, equity holdings, and securities liquidations.

The Treasurer is responsible for record-keeping, reporting, and implementation of investment decisions.

General Principle

The Research Foundation Board approves the Investment Policy and all modifications to the policy. Any exceptions to the Investment Policy must be approved by the Research Foundation Board.

The Finance Committee, with the advice of the Investment Subcommittee, develops a yearly plan of proposed asset allocations to be approved by the Research Foundation Board. Actual investment decisions within the approved allocations are made by the Finance Committee and implemented by the Treasurer. The Treasurer is required to provide a monthly report on the assets held in the portfolio, and monthly and year-to-date earnings on the Research Foundation assets. The Treasurer provides time-weighted rate of return, monthly, on restricted and unrestricted funds.

The primary criterion for investment of restricted funds is preservation of principal with sufficient liquidity to meet all reasonable demands on individuals, departments, centers and colleges with discretionary authority over the funds.

Unrestricted Funds are invested for reasonable return in a broad range of securities. Sufficient liquidity must be maintained to meet expected cash needs for support of research as determined by the President of the Research Foundation and Research Foundation Board.

The Research Foundation is not an active trader in securities and, in general, will sell investments only when needed for Research Foundation activities.

The Finance Committee may engage advisors to assist them in their investment decisions, with approval from the Research Foundation Board. The Investment Subcommittee may select investment manager(s) subject to the approval of the Finance Committee, and is responsible for monitoring the performance of all such manager(s).

Securities Available for Investment

Restricted Funds are invested to guarantee ample liquidity to support research projects and to minimize any loss of principal. These securities are invested in the following assets:

- U.S. Treasury and Agency Securities with an average maturity of two years;
- Certificates of deposits at adequately capitalized, highly rated commercial banks with average maturities of one year;
- Pooled money market funds offered by appropriate state of Florida entities, or commercial banks, and Money Market Investments with securities rated A1/P1/F1/D1 or the equivalent as defined by Standard and Poors or Moody's, including but not limited to commercial paper, bankers acceptance notes;
- Other securities that provide liquidity and good risk adjusted returns such

as Senior Secured Floating Rate Loan pools. Also included are: Corporate Bonds and Medium Term Notes rated “BBB” or better by either Standard and Poors or Moody’s, Asset Backed Securities rated “AAA” or better, Mortgage Backed Pass Throughs rated “AAA” or better, and Repurchase Agreements Collateralized at 102% by U.S. Treasury, including reverse repurchase agreements. Any investments in this category cannot exceed forty percent (40%) of total Restricted Funds at time of purchase.

Unrestricted Funds may be invested in securities and real assets that will earn additional income and/or support research at the University. Eligible securities for investment include:

- Investments in publicly traded securities:
 - U.S. Treasury or Agency Securities with average maturities less than five years;
 - Investments in pooled funds of publicly trade companies; e.g. mutual funds
- Investments in alternative assets:
 - Investments in partnership units of private equity funds-e.g. venture capital;
 - Investments in equity or debt in companies that hold licenses of University technology;
 - Investments in equity or debt of University initiatives such as joint ventures, or for profit subsidiaries.
- Investments in risk-free and low risk assets:
 - Investments in securities approved for restricted funds.

In making these investments, consideration must be taken of the tradeoff between risk and return and the expected liquidity needs over the next year. Funds to be allocated for the various categories of asset investments are recommended by the Finance Committee to the Research Foundation Board at the annual meeting.

At least forty percent (40%) of total Restricted Funds must be held in either (i) U.S. Treasury and Agency Securities with an average maturity of two years and (ii) certificates of deposits at adequately capitalized, highly rated commercial banks with average maturities of one year, at time of purchase; no more than fifty percent (50%) of total Unrestricted Funds may be held in alternative assets and no more than 40% of these investments can be in partnership units of private equity funds, described above. The actual allocation is determined by the Research Foundation Board annually upon recommendation of the Finance Committee.

Securities Accepted for License Fees and Other Services

From time to time, the Research Foundation may hold in its portfolio securities that are not registered for sale. Generally, these securities are obtained as license or royalty payments. Occasionally, they may also be obtained as payment or gifts in support of research.

Procedures on Equity Holdings from Licensing Activities

In general, the Research Foundation holds equity obtained in lieu of royalties or other license fees from licensee companies until it can be sold in the open market. The securities will be valued at the lower of cost or market in the assets of the Research Foundation. The value of all securities not registered for sale will be evaluated annually by the Finance Committee and disclosed in the financial statements.

The Research Foundation liquidates its holdings of newly registered securities as soon as practicable on the market. Such a sale is made on the advice of the Investment Subcommittee and investment manager, if any. In order to limit potential conflicts, no University Department Chairs or College Administrators of colleges potentially benefiting from the sale of any Research Foundation equity holdings serves on the Investment Subcommittee. Even when the decision is made to sell, it may take considerable time because of the lack of adequate volume in the market to supply a bulk sale.

If the Research Foundation elects to hold some or all of its portion of securities, it is effectively making an investment at that time, and this investment will be subject to the general asset allocation set by the Research Foundation Board. In addition, the market value of any one equity interest eligible for sale obtained in this manner cannot exceed ten percent (10%) of the total unrestricted funds.

The market value of all equities eligible for sale obtained in this manner cannot exceed thirty percent (30%) of total unrestricted funds.

Proceeds from the sale of equity obtained in lieu of royalties or other license fees are distributed pursuant to the Intellectual Property Policy.

TRUSTEE

J. P. Morgan Trust Company, National Association is the Trustee under the Indenture and will also serve as authenticating agent and paying agent. A successor trustee may be appointed in accordance with the terms of the Indenture. The designated corporate trust office of the Trustee is located in Jacksonville, Florida. All notices required to be sent to the Trustee shall be sent to 10151 Deerwood Park Boulevard, Bldg. 400, 5th Floor, Jacksonville, Florida 32256.

REMARKETING AGENT

Lehman Brothers (the "Remarketing Agent") has agreed to remarket the Bonds at the Fixed Rate at an aggregate purchase price of one hundred percent (100%) of the principal amount of the Bonds pursuant to the Remarketing Agreement. The Remarketing Agent will receive a fee of \$199,887.67.

TAX MATTERS

The delivery of the Bonds is subject to receipt of the opinion of Smith Hulsey & Busey, Bond Counsel under existing laws, regulations and court decisions, to the effect that interest on the Bonds is excluded from gross income for federal income tax purposes and interest on the Bonds is also exempt from taxation under the laws of the State of Florida, except estate taxes imposed by Chapter 198, Florida Statutes, and net income and franchise taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by

corporations, banks and savings associations, all as defined in Chapter 220. The form of such opinion is set forth in Appendix D hereto. In the opinion of Bond Counsel the interest on the Bonds is, under existing laws, regulations and court decisions, excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although it should be noted that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in the preceding sentence are subject to the condition that the Research Foundation comply with all requirements of the Internal Revenue Code of 1986, as amended, and the Regulations thereunder, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Research Foundation has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

Except as described above, Bond Counsel will express no opinion regarding the federal income tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of the Bonds may result in other collateral federal tax consequences, including (i) the denial of a deduction of interest on indebtedness incurred, or continued, to purchase or carry the Bonds or, in the case of a financial institution, that portion of the owner's interest expense allocable to interest on the Bonds; (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by fifteen percent (15%) of certain items, including interest on the Bonds; (iii) the inclusion of interest on the Bonds in the earnings of certain foreign corporations doing business in the United States for purposes of a branch profits tax; (iv) the inclusion of interest on the Bonds in the passive income subject to federal income taxation of certain "S" corporations with Subchapter C earnings and profits at the close of the taxable year; and (v) the inclusion in gross income of interest on the Bonds by recipients of certain Social Security and Railroad Retirement benefits.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or the courts; rather such opinions represent Bond Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinion.

RATING

Moody's Investors Service ("Moody's") has assigned a rating of "Aaa" to the Bonds. Any explanation of the significance of such rating may only be obtained from Moody's. The Bond Insurer and the Issuer furnished certain information and materials not included in this Official Statement to Moody's. Generally, rating agencies base their ratings on such information and materials and investigations, studies and assumptions made by the rating agencies. There is no assurance that a particular rating will remain unchanged for any given period of time or that it may not be lowered or withdrawn entirely by Moody's if in its judgment circumstances so warrant. Any downward change in or withdrawal of any rating may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

On the date of delivery of the Bonds, the Research Foundation will execute and deliver a Continuing Disclosure Certificate (the "Certificate") for the benefit of the beneficial owners of the Bonds to send certain information annually and quarterly and to provide notice of certain events to certain information repositories pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The information to be provided on an annual and quarterly basis, the events which will be noticed on an occurrence basis and the other terms of the Certificate, including termination, amendment and remedies, are set forth in Appendix C.

The Research Foundation has represented that it is in compliance with all agreements previously entered into by it pursuant to the Rule. A failure by the Research Foundation to comply with the Certificate will not constitute an event of default under the Indenture and beneficial owners of the Bonds are limited to the remedies described in the Certificate. See Appendix C. A failure by the Research Foundation to comply with the Certificate must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS

Section 517.051, Florida Statutes, as amended, provides for the exemption from registration of certain governmental securities, provided that if an issuer of governmental securities has been in default at any time after December 31, 1975 as to principal and interest on any obligation issued or guaranteed by it, its securities may not be offered or sold in Florida pursuant to the exemption, except by means of an offering document containing full and fair disclosure, as prescribed by the rules of the Florida Department of Banking and Finance (the "Department"). Under the rules of the Department, disclosure of information is required only if such information would be considered material by a reasonable investor.

The Research Foundation has the power to issue Bonds on behalf of the University Board after approval from the Florida Board of Governors and the State Board of Education pursuant to §1010.60, F.S., for the purpose of financing and refinancing projects for other facilities which are payable from revenue derived from the applicable financing agreements.

NO LITIGATION

There is not now pending any litigation, of which the Research Foundation has notice, restraining or enjoining the conversion of the interest rate on and the remarketing or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which the interest rate of such Bonds are to be converted and under which such Bonds are to be remarketed, or the pledge or application of any moneys or the security provided for the payment of the Bonds or that would have a material adverse impact on the financial position or operations of the Research Foundation. Neither the creation, organization or existence of the Research Foundation, nor the title of the present directors or other officials of the Research Foundation to their respective offices, is, to the best knowledge of the Research Foundation, being contested.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the conversion of the interest rate on and remarketing of the Bonds and with regard to the exclusion of the interest on the Bonds from gross income for federal income tax purposes under existing law will be passed upon by Smith Hulsey & Busey, Jacksonville, Florida, Bond Counsel and Disclosure Counsel. The form of such Bond Counsel approving opinion is set forth in Appendix D hereto. Certain legal matters in connection with the conversion of the interest rate on and remarketing of the Bonds will be passed upon for the Research Foundation by the General Counsel of the University of Florida, Gainesville, Florida.

MISCELLANEOUS

The references, excerpts and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is directed to all such documents for full and complete statements of all matters of fact relating to the Bonds, the security for the payment of the Bonds, and the rights and obligations of holders thereof.

The information contained in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement, which may have been made verbally or in writing is to be construed as a contract with the holders of the Bonds.

**UNIVERSITY OF FLORIDA RESEARCH
FOUNDATION, INC.**

By: _____
Name: _____
Title: _____

Appendix A

Certain Information Regarding the University of Florida

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APPENDIX A

THE UNIVERSITY OF FLORIDA Gainesville, Florida

Introduction

The University of Florida (the “University”) is a State-supported, land-grant, comprehensive, research university with student enrollment of approximately 48,000 students. Because of the range of academic and research programs on its campus, it is among the nation’s three most comprehensive universities. The University is the State’s oldest and largest university, the only member of the prestigious Association of American Universities in the State of Florida and one of only 62 members in North America. The University is also recognized by the Carnegie Commission on Higher Education as one of the nation’s leading research universities.

While highly recognized for its achievements in research and academic programs at the graduate and professional levels, the University is also dedicated to excellence in its undergraduate programs. The student body has the highest academic ranking in Florida and is among the highest ranking public universities in the nation.

The University is among the nation’s top three universities, offering more academic programs on a single campus than any of the nation’s other universities. It has 17 colleges and more than 150 interdisciplinary research and education centers, bureaus and institutes. These bring together faculty and student scholars from various academic programs to provide research and development services in all areas of State interest. Almost 100 undergraduate degree programs are offered and the graduate school coordinates approximately 200 graduate degree programs throughout the University’s colleges and schools. Professional post-baccalaureate degrees are offered in law, dentistry, medicine and veterinary medicine.

History

The University traces its origins to 1853 when the state-funded East Florida Seminary acquired the private Kingsbury Academy in Ocala. After the Civil War, the seminary was moved to Gainesville. It was consolidated with the state’s land-grant Florida Agricultural College, then in Lake City, to become the University of Florida in 1906. Until 1947, the University enrolled men only and was one of only three state universities. The others were Florida State College for Women (now FSU) and Florida A&M. In 1947, the student body numbered 8,177 men and 601 women. Today the University is the fourth largest university in the nation.

Governance

The State’s Constitution provides that adequate provision shall be made by law for, among other things, the operation and maintenance of institutions of higher learning

within the State. Under this authority, the State of Florida has formulated a State University System.

The State Board of Education (the “State Board”) is established by Article IX, Section 2 of the Florida Constitution. The State Board is the chief implementing and coordinating body of public education in Florida. Effective January 7, 2003, the State Board consists of seven members appointed by the Governor to staggered, four year terms, subject to confirmation by the Florida Senate. Also as of that date, the Commissioner of Education is no longer elected, but is appointed by the State Board. Prior to January 7, 2003, the State Board was comprised of the Governor, as Chairman, the Commissioner of Education, as Secretary, the Secretary of State, the Attorney General, the Comptroller, the Treasurer and the Commissioner of Agriculture, all of whom were elected officials.

The Florida Board of Governors (the “Board of Governors”) is established by Article IX, Section 7 of the Florida Constitution, effective January 7, 2003. The Board of Governors is authorized to operate, regulate, control and manage the State University System. The responsibilities of the Board of Governors include defining the mission of each university, ensuring the coordination and operation of the university system and avoiding wasteful duplication of facilities or programs. The Board of Governors' management of the State's universities is subject to the power of the legislature to appropriate funds. The Board of Governors consists of seventeen members, fourteen of whom are appointed by the Governor to staggered seven year terms as provided by law, subject to confirmation by the Florida Senate. The Commissioner of Education, the Chair of the Advisory Council of Faculty Senates, and the president of the Florida Student Association are *ex officio* members of the Board of Governors. The term of office of any appointed member of the Board of governors will not be determinable until the Legislature establishes the initial duration of the fourteen initial appointed terms.

Pursuant to Article IX, Section 7 of the Florida Constitution, each college or university in the State has a thirteen (13) member Board of Trustees. Each Board of Trustees is a public body corporate with all the powers of a body corporate, including a corporate seal, the power to contract and be contracted with, to sue and be sued, to plead and be impleaded in all counts of law or equity and to give and receive donations. Each Board of Trustees is also vested with the authority to govern and set policy for its respective university, as necessary, to provide proper governance and improvement of the university in accordance with the law and with the rules of the Board of Governors. The Board of Trustees at the University is known as The University of Florida Board of Trustees.

Within the University, the President is responsible for the administration and supervision of all University activities. Deans of colleges are ultimately responsible to the Provost/Senior Vice President for matters relating to programs and personnel in their colleges and comprise a Council of Academic Deans. The Provost, who also holds the title of Senior Vice President for Academic Affairs, acts for the President when the latter is absent. The Vice President for Finance and Administration is responsible for fiscal, personnel and physical facilities matters and the Vice President and General Counsel

provides legal advice and representation to the University. The Vice Presidents for Student Affairs, Health Affairs (Health Science Center) and Agriculture and Natural Resources (Institute of Foods and Agricultural Sciences) are responsible for the areas described in their titles. The President's staff is composed of the Provost, the Vice Presidents, assistant and associate vice presidents who are responsible for University and faculty relations and for affirmative action, the Director of Athletics and the Chief Audit Executive.

Buildings and Other Capital Facilities

The 2000-acre contiguous main campus has over 1000 buildings containing 18.3 million gross square feet. Of these buildings, 174 have classrooms and laboratories. Within the past decade, 34 major facilities have been completed. Adequate building space, especially in research labs, classrooms, libraries, support space, and sufficient modern technical equipment comprise the University's second highest priority, close behind increased faculty salary support. Funding from grants and the legislature has allowed for significant improvements and additions to facilities located at the University.

Notable new facilities constructed on the University's main campus are the Health Professions Pharmacy Nursing Building, Gerson Hall Accounting Building, Bookstore and Visitor Welcome Center, PK Yonge Auditorium, Hume Residence Hall, Hall of Florida Fossils at Powell Hall, M.E. Rinker Hall, Anderson/Flint Hall Remodeling/Restoration, Frazier Rodgers Hall Remodeling/New Construction, WUFT-TV/FM -Gainesville (Weimer Hall) Addition, Emerson Alumni Hall, Basketball Practice Facility, and Football Stadium Skybox Addition.

Interesting features of some the new facilities include; M.E. Rinker Hall as the first University project registered by the United States Green Building Council (USGBC). It is also the first building in the state of Florida to receive LEED "Gold" certification for a state of the art sustainable building; Frazier Rodgers Hall Remodeling/New Construction included a new 53,453 GSF agricultural and biological engineering building derived from completely demolishing the back half of the building and gutting the interior spaces to allow construction of new space as well as a total remodeling/restoration of the facade of the existing building. The completed facility contains modern and efficient interior spaces but retains the historic effect of the exterior façade to blend in well with surrounding buildings.

Capital Improvement Projects in Progress at 06/30/2004

(Projects Funded from PECO and/or Other Sources)

<u>Project Name</u>	<u>Project Budget</u>
OConnell Center Fire Code Corrections	\$1,050,000
IFAS Quarantine Facility	\$3,889,000
The Mary Ann Harn Cofrin Pavilion	\$5,400,000
Orthopaedic Surgery & Sports Medicine Institute	\$26,528,155

Constans Theatre Addition	\$7,706,000
ICBR Biotechnology Laboratory Pavillion	\$6,500,000
Genetics and Cancer Research Center	\$77,293,978
Library Addition and Remodeling	\$30,638,000
Legal Information Center Addition and Phase II Law Building	\$22,546,826
McGuire Center for Lepidoptera Research	\$9,115,200
Active and Passive Recreation Facilities	\$1,700,000
Proton Therapy Facility	\$31,420,000
Pharmacy Wing Remodeling - Phase II	\$6,800,000
Gulf Coast Research & Education Center	\$8,224,119
Murphree Hall Renovation	\$8,621,000
Diamond Village Renovations	\$7,742,600
SW Chiller Plant #4 Install 650 Ton Chiller/Cooling Tower	\$1,630,000
IFAS Balm Lab Support Facility	\$1,400,000
IFAS Balm Post Harvest/Pest Facility	\$1,200,000

Budgetary Process

The University of Florida Board of Trustees (the “University Board”) is required to prepare and submit to the Board of Governors for review an annual operating budget which represents the University’s plan for utilizing the resources available through direct or continuing appropriation by the Legislature, Student Fees, and other local sources. The operating budget is prepared and submitted in accordance with the provisions of State law, rules of the Board of Governors, and the General Appropriations Act. The University operating budget is comprised of the following budget entities:

Educational and General (E&G). The E&G budget is comprised of activities which serve the University’s primary mission of teaching, research, and public service and which are funded from State appropriations, Student Fees, Federal formula funds, and sales of goods and services that are incidental to the conduct of educational activities.

Auxiliary Enterprises. The Auxiliary Enterprises budget represents planned expenditures funded from revenues generated by self-supporting functions and service centers.

Contracts and Grants. The Contracts and Grants budget represents planned expenditures supported by contracts and grants sponsored by Federal, State, and local units of government as well as private industry. This budget also includes gifts and grants from private sources.

Student Activities. The Student Activities budget includes planned expenditures to be funded from activity and services fees which the University is authorized by law to charge its student. The budget is developed and approved in accordance with Section 1009.24(9), Florida Statutes.

Concession. The Concession Fund represents planned expenditures of revenues earned from vending activities.

Intercollegiate Athletics. Intercollegiate athletics at the University is operated by the University Athletic Association, Inc., a private, not-for-profit organization and a University direct-support organization as defined by Section 1004.28, Florida Statutes. The budget includes planned expenditures of revenue sources that include, but are not limited to, student athletic fees assessed and collected by the University as authorized by Section 1009.24(11), ticket sales, private contributions, sales and licensing, and concessions.

Student Financial Aid. The Student Financial Aid budget consists of estimated expenditures of revenues received from Federal, State, and private sources as well as University-designated sources for financial assistance to students.

Self-Insurance Program. The Self-Insurance Program (Program) provides the general and professional liability protection to the University Board for its faculty members and other employees of the six Health Science Center (HSC) colleges. The budget represents estimated revenues from contributions/premiums paid by the Program participants, planned administrative expenses of the Program, and estimated claims costs.

Faculty Practice Plans. This budget consists of planned expenditures of revenues resulting from clinical practice by members of the academic clinical faculty of the University of Florida Health Science Center.

A comparison of the operating budget of the University is included below for the two most recently completed fiscal years:

	2002-2003 Operating Budget	2003-2004 Operating Budget
Educational and General	692,005,883.00	721,206,583.00
Auxiliary Enterprises	221,559,741.00	249,814,005.00
Contracts and Grants	545,996,526.00	584,072,980.00
Student Activities	4,626,450.00	4,185,000.00
Concession	632,730.00	696,003.00
Intercollegiate Athletics	47,301,054.00	56,803,531.00
Student Financial Aid	247,685,000.00	272,453,500.00
Self-Insurance Program	17,279,800.00	15,991,215.00
Faculty Practice Plans	252,777,195.00	273,903,037.00
Total	2,029,864,379.00	2,179,125,854.00

Sources of Revenue

Historical Summary of Revenue Sources. The following table sets forth the percentage of the University's total revenues represented by each revenue source for the periods indicated.

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
State Appropriations and Student Tuition and Fees	50.40	50.30	51.14	52.15
Grants, Contracts and Gifts*	29.20	29.40	36.53	37.89
Sales and Services	10.60	9.10	9.65	9.65
Federal Appropriations**	0.60	0.50	----	----
Miscellaneous	0.80	1.50	2.36	0.31
Primary Government from/(to) Component Units***	<u>8.40</u>	<u>9.20</u>	<u>0.32</u>	----
TOTAL	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

*Beginning in 1994-95, Federal Direct Student Loan Program funds were deposited in and disbursed from the University's Current Restricted Fund Group. Beginning in 2001-2002, Federal Direct Student Loan Program funds were deposited in and disbursed from the University's Agency Fund Group.

**Beginning in 2001-2002, "Federal Appropriations" were grouped with "Operating Grants, Contracts & Gifts".

***Beginning in 1993-94, revenues received from component units of the University were required to be disclosed separately as "Transfers from/(to) Component Units". In prior years they had been reported as "Grants, Contracts & Gifts". Beginning in 2001-2002 they were again reported as "Grants, Contracts & Gifts".

Tuition and Fees. The following table lists tuition and local fees charged to each undergraduate and graduate student per credit hour for the current and past five academic years.

	UNDERGRADUATE COURSES 0000-4999	GRADUATE COURSES 5000-9999	LAW COURSES
	<u>2003-2004</u>	<u>2003-2004</u>	<u>2003-2004</u>
Matriculation	\$63.41	170.63	193.92
Building	2.32	2.32	2.32
Capital Improvement Trust Fund	2.44	2.44	2.44
Student Financial Aid	3.17	8.53	9.69
Activity and Service	8.16	8.16	8.16
Athletic	1.90	1.90	1.90
Health	7.69	7.69	7.69
Transportation Access	<u>3.59</u>	<u>3.59</u>	<u>3.59</u>
Resident Tuition Per Credit Hour	<u>92.68</u>	<u>205.26</u>	<u>229.71</u>
Non-Resident	350.10	542.17	564.73
Non-Resident Student Financial Aid	<u>17.50</u>	<u>27.10</u>	<u>28.23</u>
Non-Resident Tuition Per Credit Hour	<u>460.28</u>	<u>774.53</u>	<u>822.67</u>

	UNDERGRADUATE COURSES 0000-4999	GRADUATE COURSES 5000-9999	LAW COURSES
	<u>2002-2003</u>	<u>2002-2003</u>	<u>2002-2003</u>
Matriculation	\$58.45	\$147.33	\$152.23
Building	2.32	2.32	2.32
Capital Improvement Trust Fund	2.44	2.44	2.44
Student Financial Aid	2.92	7.36	8.37
Activity and Service	7.68	7.68	7.68
Athletic	1.90	1.90	1.90
Health	7.32	7.32	7.32
Transportation Access	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>
Resident Tuition Per Credit Hour	<u>\$86.03</u>	<u>\$179.35</u>	<u>\$200.48</u>
Non-Resident	300.49	465.32	484.69
Non-Resident Student Financial Aid	<u>15.02</u>	<u>23.25</u>	<u>24.22</u>
Non-Resident Tuition Per Credit Hour	<u>\$401.54</u>	<u>\$667.92</u>	<u>\$709.39</u>

	UNDERGRADUATE COURSES 0000-4999	GRADUATE COURSES 5000-9999	LAW COURSES
	<u>2001-2002</u>	<u>2001-2002</u>	<u>2001-2002</u>
Matriculation	\$55.67	\$133.95	\$152.23
Building	2.32	2.32	2.32
Capital Improvement Trust Fund	2.44	2.44	2.44
Student Financial Aid	2.78	6.68	7.60
Activity and Service	7.58	7.58	7.58
Athletic	1.90	1.90	1.90
Health	6.79	6.79	6.79
Transportation Access	<u>2.00</u>	<u>2.00</u>	<u>2.00</u>
Resident Tuition Per Credit Hour	<u>\$81.48</u>	<u>\$163.66</u>	<u>\$182.86</u>
Non-Resident	250.41	387.78	403.91
Non-Resident Student Financial Aid	<u>12.51</u>	<u>19.38</u>	<u>20.19</u>
Non-Resident Tuition Per Credit Hour	<u>\$344.40</u>	<u>\$570.82</u>	<u>\$606.96</u>

	UNDERGRADUATE COURSES 0000-4999	GRADUATE COURSES 5000-9999	LAW COURSES
	<u>2000-2001</u>	<u>2000-2001</u>	<u>2000-2001</u>
Matriculation	\$51.79	\$124.61	\$141.62
Building	2.32	2.32	2.32
Capital Improvement Trust Fund	2.44	2.44	2.44
Student Financial Aid	2.58	6.23	7.08
Activity and Service	7.58	7.58	7.58
Athletic	1.90	1.90	1.90
Health	<u>6.59</u>	<u>6.59</u>	<u>6.59</u>
Resident Tuition Per Credit Hour	<u>75.20</u>	<u>151.67</u>	<u>169.53</u>
Non-Resident	232.95	360.73	375.74
Non-Resident Student Financial Aid	<u>11.64</u>	<u>18.03</u>	<u>18.78</u>
Non-Resident Tuition Per Credit Hour	<u>\$319.79</u>	<u>\$530.43</u>	<u>\$564.05</u>

	UNDERGRADUATE COURSES 0000-4999	GRADUATE COURSES 5000-9999	LAW COURSES
	<u>1999-2000</u>	<u>1999-2000</u>	<u>1999-2000</u>
Matriculation	\$49.33	\$118.68	\$134.88
Building	2.32	2.32	2.32
Capital Improvement Trust Fund	2.44	2.44	2.44
Student Financial Aid	2.46	5.93	6.74
Activity and Service	7.43	7.43	7.43
Athletic	1.70	1.70	1.70
Health	<u>5.70</u>	<u>5.70</u>	<u>5.70</u>
Resident Tuition Per Credit Hour	<u>71.38</u>	<u>144.20</u>	<u>161.21</u>
Non-Resident	221.86	343.56	357.85
Non-Resident Student Financial Aid	<u>11.09</u>	<u>17.17</u>	<u>17.89</u>
Non-Resident Tuition Per Credit Hour	<u>\$304.33</u>	<u>\$504.93</u>	<u>\$536.95</u>

History of General Revenue Appropriations. The following table sets forth the history of General Revenue appropriations available to the University for Fiscal Years 1999-2000 through 2003-2004. General Revenue appropriations are primarily funded from Florida's sales tax.

<u>Fiscal Year</u>	<u>Educational & General</u>
1999-00	489,340,849
2000-01	513,909,992
2001-02	477,397,123
2002-03	504,603,121
2003-04	521,739,504

History of Trust Fund Appropriations. The following table sets forth the history of trust fund appropriations available to the University, by budget entity, for Fiscal Years 1999-2000 through 2003-2004.

<u>Fiscal Year</u>	<u>Educational & General</u>	<u>Auxiliary Enterprises</u>	<u>Contracts & Grants</u>	<u>Other</u>	<u>Total</u>
1999-00	161,045,313	187,794,877	377,922,000	484,650,435	1,211,412,625
2000-01	169,940,609	189,887,484	401,050,000	517,343,897	1,278,221,990
2001-02	181,811,045	186,699,999	463,112,589	560,590,264	1,392,213,897
2002-03	187,402,762	221,559,741	545,996,526	570,302,229	1,525,261,258
2003-04	199,467,079	249,814,005	584,072,980	624,032,286	1,657,386,350

History of Financial Aid Awards. The following table sets forth the history of financial aid awards from 1999-2000 through 2002-2003.

Financial Aid by Type: Awards and Recipients

<u>Year</u>	<u>Grants</u>		<u>Loans</u>		<u>Employment</u>		<u>Scholarships</u>		<u>Private Donor</u>		<u>Total</u>	
	<u>Awards</u>	<u>Recipients</u>	<u>Awards</u>	<u>Recipients</u>	<u>Awards</u>	<u>Recipients</u>	<u>Awards</u>	<u>Recipients</u>	<u>Awards</u>	<u>Recipients</u>	<u>Awards</u>	<u>Recipients</u>
2002-03	21,295	10,048	34,769	17,251	7,351	6,977	44,639	31,318	5,985	4,728	1114,039	42,190
2001-02	19,349	8,791	33,667	16,687	7,402	7,027	42,494	30,011	5,984	4,795	108,896	38,802
2000-01	18,059	8,173	32,641	16,317	7,698	7,346	40,005	29,093	5,575	4,373	103,977	39,582
1999-00	18,248	8,262	33,223	16,544	7,495	7,163	34,690	25,155	5,791	4,784	99,447	38,292

Financial Aid by Type: Dollars

<u>Year</u>	<u>Grants</u>		<u>Loans</u>		<u>Employment</u>		<u>Scholarships</u>		<u>Private Donor</u>		<u>Total</u>	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
2002-03	\$43,779,786	13%	\$143,283,822	44%	\$12,266,774	4%	\$115,691,611	36%	\$10,113,519	3%	\$325,135,512	100%
2001-02	\$38,041,873	13%	\$131,487,187	44%	\$11,683,150	4%	\$102,856,612	35%	\$11,190,002	4%	\$295,258,824	100%
2000-01	\$32,334,963	12%	\$129,032,655	47%	\$11,776,554	4%	\$93,015,801	34%	\$10,361,879	3%	\$276,521,852	100%
1999-00	\$30,132,258	12%	\$130,858,039	50%	\$11,306,056	4%	\$79,074,406	30%	\$9,246,294	4%	\$260,617,053	100%

Financial Aid by Source: Awards and Recipients

Year	Federal		Institutional		State		Private		Total	
	Awards	Recipients	Awards	Recipients	Awards	Recipients	Awards	Recipients	Awards	Recipients
2002-03	44,562	20,088	20,824	15,417	41,133	31,279	8,687	6,940	114,039	42,190
2001-02	41,892	18,435	18,688	14,201	36,746	28,996	7,101	5,504	104,427	38,802
2000-01	41,945	18,582	18,570	13,976	36,592	28,676	6,870	5,452	103,977	39,582
1999-00	42,899	18,588	18,122	13,809	31,397	25,082	7,029	5,779	99,447	38,292

Financial Aid by Source: Dollars

Year	Federal		Institutional		State		Private		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%
2002-03	\$162,019,557	50%	\$46,557,129	14%	\$101,312,531	31%	\$15,246,295	5%	\$325,135,512	100%
2001-02	\$149,342,298	51%	\$41,418,205	14%	\$89,293,455	30%	\$15,204,866	5%	\$295,258,824	100%
2000-01	\$144,706,484	52%	\$35,607,404	13%	\$82,079,771	30%	\$14,128,193	5%	\$276,521,852	100%
1999-00	\$145,474,307	56%	\$32,875,077	13%	\$69,192,047	26%	\$13,075,622	5%	\$260,617,053	100%

Selected Historical Financial Information

The following table sets forth selected historical financial information for the University for the two Fiscal Years ended 2002 and 2003. This selected historical financial information has been derived from, and should be read in conjunction with the University's audited financial statements and the related notes thereto, of which the most recent Fiscal Year is included as an appendix to this official statement.

UNIVERSITY OF FLORIDA A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET ASSETS

<i>(amounts expressed in thousands)</i>	Fiscal Year Ended <u>June 30, 2002</u>	Fiscal Year Ended <u>June 30, 2003</u>
ASSETS		
Current Assets:		
Cash	\$ 26,179	\$ 22,527
Unexpended General Revenue Releases	67,805	79,402
Investments	334,984	446,795
Accounts Receivable, Net	78,769	70,834
Due from Primary Government/Component		
Units	99,591	59,159
Loans and Notes Receivable, Net	5,950	5,463
Inventories	3,870	3,981
Other Current Assets	415	652
Total Current Assets	617,563	688,813
Noncurrent Assets:		
Restricted Cash	16,797	21,460
Unexpended General Revenue Releases -		
Restricted	1,927	1,919
Restricted Investments	78,993	117,950

Loans and Notes Receivable, Net	27,714	27,734
Depreciable Capital Assets, Net	818,257	881,605
Nondepreciable Capital Assets	100,804	104,770
Other Noncurrent Assets	1,013	978
Total Noncurrent Assets	1,045,505	1,156,416
TOTAL ASSETS	\$ 1,663,068	\$ 1,845,229
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 26,225	\$ 29,625
Accrued Salaries and Wages Payable	18,946	23,813
Due to Primary Government/Component		
Units	12,192	10,329
Deferred Revenue	38,516	22,989
Deposits Held in Custody	6,010	8,443
Obligations Under Securities Lending and		
Repurchase Agreements	-	80,267
Long-Term Liabilities - Current Portion:		
Bonds and Revenue Certificates Payable	5,763	5,962
Installment Purchase Agreements Payable	149	247
Capital Leases Payable	65	69
Compensated Absences Payable	5,635	5,747
Liability for Self-Insured Claims	6,884	9,060
Other Current Liabilities	-	-
Total Current Liabilities	94,160	196,551
Noncurrent Liabilities:		
Bonds and Revenue Certificates Payable	129,204	123,166
Installment Purchase Notes Payable	209	243
Capital Leases Payable	4,004	3,935
Compensated Absences Payable	99,173	104,095
Liability for Self-Insured Claims	31,599	37,572
Other Noncurrent Liabilities	-	-
Total Noncurrent Liabilities	264,189	269,011
TOTAL LIABILITIES	358,349	465,562
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	790,217	858,176
Restricted:		
Nonexpendable:		
Endowment	-	-
Expendable:		
Loans	46,872	47,846
Capital Projects	123,317	146,872
Debt Service	3,562	3,044
Other Restricted Net Assets	122,937	224,016
Unrestricted	191,589	99,713

Total Net Assets	1,278,494	1,379,667
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,636,843</u>	<u>\$ 1,845,229</u>

Students

General. The University limited enrollment growth for several years in the mid-1980's as part of a program to improve the quality of undergraduate education. Since then, enrollment has grown at a rate of 2% annually, primarily at the upper division and graduate levels. The 2003 Fall Semester enrollment was approximately 48,000.

The middle 50% of SAT scores for entering freshmen in the Fall of 2003 was 1180-1350. The mid-range of the high school grade point averages for the entering class was 3.7-4.2. The students come from every county in Florida and every state in the nation. In the University's 2003 Fall enrollment of 47,858 students; 71% were undergraduates; 22% were graduate students; 7% were in professional degree programs. Approximately 48% were male, 52% female, 25% were minorities, which includes Black, Hispanic, Asian and American Indian.

One-fourth of the student body lives in campus residence halls or fraternity and sorority houses. The majority of the remaining students live in private apartments surrounding the campus. A relatively small number of student commute each day to the campus. In 2002-2003 approximately 42,190 students received financial aid amounting to over \$325 million.

With 244 National Merit Scholars and 60 Achievement Scholars enrolled as freshmen in the Fall Semester of 2003, the University ranked fourth among colleges and universities in the number of new Merit Scholars enrolled. In 2003-2004, national merit scholarships totaled \$3,848,084.

Academically motivated, as attested by the fact that the University is among the nation's top 25 universities in the number of baccalaureate graduates continuing on to graduate school, students lead a rich social and extracurricular life. They belong to more than 500 student organizations, attend more than 200 campus concerts, art exhibits and theatrical productions a year, participate in an average of two out-of-class seminars and lectures a day and enjoy a variety of outdoor activities throughout the year.

Student Enrollment. The following table shows the admission and registration data for the University for the most recent five Fall Semesters for which information is available.

[Table on following page]

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Total Students:					
No. of Applicants	34,451	35,797	34,276	38,565	41,881
No. Admitted	17,121	17,982	16,412	17,630	17,842
% of Applicants Admitted	49.7%	50.2%	47.9%	45.7%	42.6%
No. Enrolled	8,375	8,981	8,747	9,386	9,312
% of Admitted Enrolled	48.9%	49.9%	53.3%	53.2%	52.2%
First-Time-in-College:					
No. of Applicants	13,967	14,441	12,862	14,479	17,041
No. Admitted	8,397	8,770	7,940	8,587	8,834
% of Applicants Admitted	60.1%	60.7%	61.7%	59.3%	51.8%
No. Enrolled	3,717	4,054	3,838	4,230	4,333
% of Admitted Enrolled	44.3%	46.2%	48.3%	49.3%	49.0%
No. of Applicants	3,084	2,916	2,791	3,158	3,138
No. Admitted	1,830	1,796	1,735	1,859	1,757
% of Applicants Admitted	59.3%	61.6%	62.2%	58.9%	56.0%
No. Enrolled	1,484	1,490	1,458	1,525	1,417
% of Admitted Enrolled	81.1%	83.0%	84.0%	82.0%	80.6%
No. of Applicants	2,154	2,063	1,979	2,351	1,969
No. Admitted	544	599	581	643	581
% of Applicants Admitted	25.3%	29.0%	29.4%	27.4%	29.5%
No. Enrolled	361	415	418	430	365
% of Admitted Enrolled	66.4%	69.3%	71.9%	66.9%	62.8%
Post-Baccalaureate:					
No. of Applicants	438	381	344	388	376
No. Admitted	196	192	148	164	110
% of Applicants Admitted	44.7%	50.4%	43.0%	42.3%	29.3%
No. Enrolled	128	138	98	118	78
% of Admitted Enrolled	65.3%	71.9%	66.2%	72.0%	70.9%
Graduate:					
No. of Applicants	11,718	12,603	12,932	13,496	14,547
No. Admitted	5,307	5,616	5,075	5,126	5,391
% of Applicants Admitted	45.3%	44.6%	39.2%	38.0%	37.1%
No. Enrolled	2,184	2,264	2,262	2,293	2,388
% of Admitted Enrolled	41.2%	40.3%	44.6%	44.7%	44.3%
Professional Schools:					
No. of Applicants	3,090	3,393	3,368	4,693	4,810
No. Admitted	847	1,009	933	1,251	1,169
% of Applicants Admitted	27.4%	29.7%	27.7%	26.7%	24.3%
No. Enrolled	501	620	673	790	731
% of Admitted Enrolled	59.1%	61.4%	72.1%	63.1%	62.5%

The table below shows the full-time equivalent (FTE) enrollment of the University by level for each of the past five academic years. The full-time equivalent student calculation factor is a measure of student enrollment based on the number of

student credit hours for which students enroll. Under the semester system, 15 undergraduate student credit hours or 12 graduate student credit hours are equivalent to one FTE during the Fall and Spring Semesters. During the Summer Semester, 10 undergraduate student credit hours or 8 graduate student credit hours are equivalent to one FTE. Annual full-time equivalency is 40 hours for undergraduate students and 32 hours for graduate students. FTE enrollment is determined by dividing the total number of hours enrolled by all students in a specific category by the appropriate hour requirement.

<u>TOTAL UNIVERSITY</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Lower	4,866.68	5,143.00	5224.25	5,156.48	5,267.80
Upper	5,395.25	5,449.58	5,508.33	5,735.05	5,745.85
Beginning Graduate	2,394.09	2,485.06	2,508.88	2,568.06	2,672.78
Advanced Graduate	<u>646.84</u>	<u>686.84</u>	<u>765.69</u>	<u>833.31</u>	<u>893.16</u>
TOTAL	<u>13,302.86</u>	<u>13,764.48</u>	<u>14,007.14</u>	<u>14,292.90</u>	<u>14,579.59</u>

Student Recruitment. The University's Office of Administration is responsible for recruiting and enrolling a student body consisting of nationally outstanding academic talent. Students are recruited for whom intense study with faculty in seminars and tutorials will have rich personal meaning. The annual national campaign to recruit and enroll the Fall class involves creating and updating publications; communicating with prospective students through direct mail and telecounseling campaigns; traveling to selected secondary schools, college fairs, Florida community colleges, and national and regional professional meetings of college placement counselors and admissions officers; and hosting University open houses for prospective students and their families. Affirmative action efforts include special mailings to minority students, traveling to different locations to participate in various minority programs and hosting on-campus events for students and counselors.

Student Quality Indicators. The following table shows the average Scholastic Aptitude Test (SAT) scores for first-time-in-college students at the University for the current and past four Fall Semesters.

[Tables begin on following page]

**RELATIVE STANDING OF FRESHMAN CLASS BASED ON SCORES OF THE
COLLEGE BOARD SCHOLASTIC APTITUDE TEST (SAT)
FALL TERM 2003**

NUMBER	YEAR	STATUS	MIDDLE 50%*	
			V	M
1,406,324	2002-03	National College Bound High School Seniors	430-580	440-600
83,397	2002-03	State of Florida College Bound High School Seniors	430-570	420-570
4,341	2003	UF Beginning Freshmen, August 2003	580-660	610-680

Percent Scoring 600 or Above:

Nation	22%	26%
State of Florida	18%	19%
University of Florida Freshmen	66%	75%

Percent Scoring 500 or Above:

Nation	54%	57%
State of Florida	50%	50%
University of Florida Freshmen	95%	99%

**RELATIVE STANDING OF FRESHMAN CLASS BASED ON SCORES OF THE
COLLEGE BOARD SCHOLASTIC APTITUDE TEST (SAT)
FALL TERM 2002**

NUMBER	YEAR	STATUS	MIDDLE 50%*	
			V	M
1,327,831	2001-02	National College Bound High School Seniors	430-580	440-600
75,864	2001-02	State of Florida College Bound High School Seniors	430-570	430-570
4,230	2002	UF Beginning Freshmen, August 2002	570-670	590-690

Percent Scoring 600 or Above:

Nation	21%	25%
State of Florida	18%	19%
University of Florida Freshmen	66%	74%

Percent Scoring 500 or Above:

Nation	53%	57%
State of Florida	50%	50%
University of Florida Freshmen	95%	98%

**RELATIVE STANDING OF FRESHMAN CLASS BASED ON SCORES OF THE
COLLEGE BOARD SCHOLASTIC APTITUDE TEST (SAT)
FALL TERM 2001**

NUMBER	YEAR	STATUS	MIDDLE 50%*	
			V	M
1,276,320	2000-01	National College Bound High School Seniors	430-580	440-590
69,363	2000-01	State of Florida College Bound High School Seniors	430-570	430-570
3,837	2001	UF Beginning Freshmen, August 2001	550-650	570-670

Percent Scoring 600 or Above:

Nation	21%	24%
State of Florida	18%	19%
University of Florida Freshmen	68%	81%

Percent Scoring 500 or Above:

Nation	53%	56%
State of Florida	50%	50%
University of Florida Freshmen	96%	94%

**RELATIVE STANDING OF FRESHMAN CLASS BASED ON SCORES OF THE
COLLEGE BOARD SCHOLASTIC APTITUDE TEST (SAT)
FALL TERM 2000**

NUMBER	YEAR	STATUS	MIDDLE 50%*	
			V	M
1,220,130	1999-00	National College Bound High School Seniors	430-580	430-590
62,524	1999-00	State of Florida College Bound High School Seniors	430-570	420-570
4,052	2000	UF Beginning Freshmen, August 2000	570-670	600-690

Percent Scoring 600 or Above:

Nation	21%	24%
State of Florida	18%	18%
University of Florida Freshmen	66%	74%

Percent Scoring 500 or Above:

Nation	53%	54%
State of Florida	50%	49%
University of Florida Freshmen	96%	98%

**RELATIVE STANDING OF FRESHMAN CLASS BASED ON SCORES OF THE
COLLEGE BOARD SCHOLASTIC APTITUDE TEST (SAT)
FALL TERM 1999**

NUMBER	YEAR	STATUS	MIDDLE 50%*	
			V	M
1,220,130	1998-99	National College Bound High School Seniors	430-580	430-590
62,524	1998-99	State of Florida College Bound High School Seniors	430-570	420-570
3,705	1999	UF Beginning Freshmen, August 1999	570-670	600-690

Percent Scoring 600 or Above:

Nation	21%	24%
State of Florida	18%	18%
University of Florida Freshmen	65%	75%

Percent Scoring 500 or Above:

Nation	53%	54%
State of Florida	50%	49%
University of Florida Freshmen	96%	98%

A second measure of student quality is the University's number of National Merit Scholars and National Achievement Scholars. The tables below show the number of National Merit Scholars and National Achievement Scholars attending the University during the past five Fall Semesters.

2003 National Freshman Merit Scholars

Public & Private Universities

Rank

1	378	Harvard/Radcliffe Colleges
2	258	University of Texas, Austin
3	228	Yale University
4	224	University of Florida
5	217	Stanford University
6	182	University of Chicago
7	176	Arizona State University
8	173	Rice University
9	170	University of Oklahoma
10	165	Princeton University

Public Universities

Rank

1	258	University of Texas, Austin
2	224	University of Florida
3	176	Arizona State University
4	170	University of Oklahoma
5	143	University of North Carolina, Chapel Hill
6	140	Brigham Young University

7	137	Texas A&M University
8	93	Ohio State University
8	93	Purdue University
10	77	Georgia Tech

Source: National Merit Scholarship Corporation.

2003 National Freshman Achievement Scholars

Public & Private Universities

Rank

1	71	Howard University
2	60	University of Florida
3	47	Harvard/Radcliffe Colleges
4	46	Stanford University
5	27	Washington University
6	26	Yale University
7	25	Florida A&M University
7	25	Princeton University
9	23	Massachusetts Inst. of Technology
10	20	Duke University
10	20	Georgia Tech
10	20	University of Pennsylvania

Public Universities

Rank

1	60	University of Florida
2	25	Florida A&M University
3	20	Georgia Tech
4	11	University of Georgia
5	10	Ohio State University
5	10	University of Alabama, Tuscaloosa
5	10	University of Illinois, Urbana-Champaign
5	10	University of Virginia
9	8	University of North Carolina, Chapel Hill
10	7	Florida State University
10	7	Louisiana State University
10	7	University of Michigan

Source: National Merit Scholarship Corporation.

Faculty

The University has 2,706 full-time “ranked” faculty. They include nationally and internationally recognized scholars, some of the most cited scientists in the world, members of the National Science Foundation Board, the National Academy of Science, National Academy of Engineering, the Institute of Medicine and their respective international counterparts. Some of the distinctive honors that have been bestowed upon the University’s faculty include the Pulitzer Prize, the National Science Foundation’s Presidential Young Investigator Award and the Fulbright and Guggenheim Fellowships.

Staff

As of September 1, 2003 the University employed the following personnel:

Faculty.....	4,026
TEAMS.....	3,289
Employees (Support Personnel).....	4,429
OPS (Part-time, Temporary and Student Employees).. <td><u>10,060</u></td>	<u>10,060</u>
Total Employees.....	20,979

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APPENDIX B

Audited Financial Statements of the University of Florida and the Research Foundation

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AUDITOR GENERAL
WILLIAM O. MONROE, CPA



UNIVERSITY OF FLORIDA
Financial Statement Audit

For the Fiscal Year Ended June 30, 2003

During the audit period, the President of the University was Dr. Charles E. Young. Members of the University's Board of Trustees who served during the audit period are listed below:

Board Members

Marshall M. Criser, Chair
Dianna Fuller Morgan, Vice Chair
Carlos Alfonso
Anthony B. Brennan from 3-1-03
Louise Courtelis to 3-31-03
Roland Daniels
John Dasburg to 1-10-03
Manny A. Fernandez
W. A. "Mac" McGriff, III
Joelen Merkel
Cynthia O'Connell
Earl Powell from 6-11-03
Albert W. Thweatt, Sr.
Alfred C. Warrington, IV
Nicole Fried to 5-1-03 (1)
Kyle Jones from 5-1-03 (1)

Note: (1) The student body president, who is a voting member of the Board in accordance with Section 1001.71(1), Florida Statutes.

UNIVERSITY OF FLORIDA

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EXECUTIVE SUMMARY

The audit of the financial statements of the University of Florida for the fiscal year ended June 30, 2003, was conducted pursuant to the provisions of Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The scope of this audit included an examination of the financial statements of the University, a component unit of the State of Florida, and a determination as to whether management has complied with applicable laws, administrative rules, regulations, contracts, and grants that are material to the financial statements. An examination of Federal awards administered by the University is included in our Statewide audit of Federal awards administered by the State of Florida.

The following provides a summary of the findings of our audit of the financial statements of the University:

- We found that the University's financial statements presented fairly, in all material respects, the financial position of the University and its aggregate discretely presented component units as of June 30, 2003; the revenues, expenses, and changes in net assets; and the cash flows for the fiscal year then ended.
- The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
- We noted no matters involving the University's internal control over financial reporting and its operation that we considered to be material weaknesses.

This audit was conducted by Brian D. Mikell, CPA, and supervised by Philip B. Ciano, CPA. Please address inquiries regarding this report to James E. Raulerson, CPA, Audit Manager, via e-mail at jimraulerson@aud.state.fl.us or by telephone at (850) 487-4468. This report, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site (<http://www.state.fl.us/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2003, as shown on pages 14 through 53. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which comprise 100 percent of the transactions and account balances of the discretely presented component units columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for these entities, is based solely upon the reports of the other auditors.

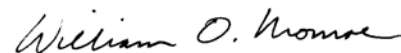
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Florida and of its aggregate discretely presented component units as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the University of Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts, and grants included under the heading **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 5 through 13 is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Respectfully submitted,



William O. Monroe, CPA
February 24, 2004



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the University of Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2003, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. 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. Our report on the financial statements included disclosures regarding our reference to the reports of other auditors.

Compliance

As part of obtaining reasonable assurance about whether the University of Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University of Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the University's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the

internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,

A handwritten signature in cursive script that reads "William O. Monroe".

William O. Monroe, CPA
February 24, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS
From the Vice President for Finance and Administration

INTRODUCTION AND BACKGROUND

The following management's discussion and analysis provides an overview of the financial position and activities of the University of Florida for the fiscal year ended June 30, 2003, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) principles, GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38.

FINANCIAL HIGHLIGHTS

The University's net assets increased by \$101.2 million, or 7.9 percent, in comparison with the 2001-02 fiscal year net assets. The University's investment in capital assets accounts for a significant portion of the increase. The net increase is further explained in the discussion of the statement of net assets.

The University continued capital improvements on projects included in the University's five-year capital improvement plan. The top three priority projects are Utility/Infrastructure Improvements, a Genetic and Cancer Research Center (total project cost of \$83.8 million) and the Library West Addition and Renovation (total project cost of \$30.9 million). Additional information about the University's capital commitments at June 30, 2003, for these and other projects is presented in note 13 to the financial statements.

Total operating revenues increased by 9.1 percent. Major components of operating revenues are contracts and grants and tuition and fees. Revenues from contracts and grants increased 9.3 percent. Student tuition and fees, net of scholarship allowances, increased by 11.4 percent. The increase in student tuition and fees is because of the increase in rates for resident undergraduates by 6 percent, graduate students by 10 percent, and nonresident students by 17 percent. Additionally, although total enrollment increased by less than 1 percent, nonresident enrollment increased 4.5 percent. The sum of the net nonoperating revenues (expenses) and other revenues, expenses, gains, or losses, which include State appropriations and investment income, increased by 8.1 percent. Operating expenses, of which 66 percent were personnel services, increased by 8.6 percent.

OVERVIEW OF FINANCIAL STATEMENTS

The GASB Statement No. 35 requires the University's financial report to include three financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The financial statements encompass the University and its discretely presented component units. These component units include:

- The University's Direct-Support Organizations – These are separate, not-for-profit corporations organized and operated exclusively to assist the University in achieving excellence by providing supplemental resources from private gifts, bequests, and valuable education support services.

- The Health Science Center Affiliates – These are the several corporations closely affiliated with the University of Florida J. Hillis Miller Health Science Center, including the Faculty Practice Plans.
- Shands Hospital and Others – These include the Shands Teaching Hospital and Clinics, Inc., a not-for-profit corporation that is contractually obligated to manage, operate, maintain and insure the hospital facilities in support of the programs of the Health Science Center at the University of Florida.

Information regarding these component units, including summaries of their separately issued financial statements, is presented in notes 1 and 19 to the financial statements. The management's discussion and analysis focuses on the University, excluding the component units. Management information for these component units is included in their separately issued financial statements.

The financial statements characterize revenues and expenses as either operating or nonoperating. A significant portion of the University's anticipated, recurring resources are considered nonoperating as defined by GASB Statement No. 35. The principal components of nonoperating revenues and their related amounts for the 2002-03 fiscal year are State appropriations for operations (\$531.8 million) and net investment income (\$43.2 million). Recurring nonoperating expenses primarily consist of interest expense totaling \$7 million on bonds and revenue certificates payable for the 2002-03 fiscal year.

THE STATEMENT OF NET ASSETS

The statement of net assets reflects the assets and liabilities of the University using the accrual basis of accounting and presents the financial position of the University at a specified time. The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University. The changes in the net assets that occur over time indicate improvements or deterioration in the University's financial condition.

The following table summarizes the University's assets, liabilities, and net assets at June 30:

Condensed Statement of Net Assets (In Millions)		
	<u>2003</u>	<u>2002</u>
Assets		
Current Assets	\$ 688.8	\$ 617.6
Capital Assets, Net	986.4	919.1
Other Noncurrent Assets	<u>170.0</u>	<u>126.4</u>
Total Assets	<u>1,845.2</u>	<u>1,663.1</u>
Liabilities		
Current Liabilities	196.5	120.4
Noncurrent Liabilities	<u>269.0</u>	<u>264.2</u>
Total Liabilities	<u>465.5</u>	<u>384.6</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	858.2	790.2
Restricted	421.8	296.7
Unrestricted	<u>99.7</u>	<u>191.6</u>
Total Net Assets	<u>\$ 1,379.7</u>	<u>\$ 1,278.5</u>

THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The statement of revenues, expenses, and changes in net assets presents the results of the University's revenue and expense activity, categorized as operating or nonoperating. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The following table summarizes the University's activity for the fiscal years ended June 30:

Condensed Statement of Revenues, Expenses, and Changes in Net Assets (In Millions)		
	<u>2003</u>	<u>2002</u>
Operating Revenues	\$ 824.9	\$ 756.2
Operating Expenses	<u>(1,383.3)</u>	<u>(1,273.2)</u>
Operating Loss	(558.4)	(517.0)
Net Nonoperating Revenues	<u>577.6</u>	<u>526.2</u>
Income Before Other Revenues, Expenses, Gains, or Losses	19.2	9.2
Other Revenues, Expenses, Gains, or Losses	<u>82.0</u>	<u>84.1</u>
Increase in Net Assets	101.2	93.3
Net Assets, Beginning of Year	<u>1,278.5</u>	<u>1,185.2</u>
Net Assets, End of Year	<u>\$ 1,379.7</u>	<u>\$ 1,278.5</u>

Operating Revenues

GASB Statement No. 35 categorizes revenues into operating and nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value.

The following table summarizes the operating revenues by source which were used to fund the University's operating activities for the fiscal years ended June 30:

Operating Revenues (In Millions)		
	<u>2003</u>	<u>2002</u>
Grants and Contracts	\$ 535.9	\$ 490.2
Tuition and Fees, Net of Scholarship Allowances	148.2	133.0
Sales and Services of Auxiliary Operations	78.7	72.7
Sales and Services of Educational Departments	57.8	56.8
Other	<u>4.3</u>	<u>3.5</u>
Total Operating Revenues	<u><u>\$ 824.9</u></u>	<u><u>\$ 756.2</u></u>

Operating Expenses

Expenses are categorized as either operating or nonoperating. The majority of the University's expenses are exchange transactions, which GASB Statement No. 35 defines as operating expenses. GASB gives financial reporting entities the choice of reporting expenses in either the functional or natural classifications. The University has chosen to report the expenses in their natural classifications on the face of the statement, and has displayed the functional classifications in the notes to financial statements. The following table summarizes the operating expenses for each method of classification for the fiscal years ended June 30:

Operating Expenses (In Millions)					
<u>Natural Classifications</u>	<u>2003</u>	<u>2002</u>	<u>Functional Classifications</u>	<u>2003</u>	<u>2002</u>
Personnel Services	\$ 912.3	\$ 863.4	Instruction	\$ 439.8	\$ 415.9
Supplies and Other Services	271.9	230.8	Research	371.5	333.4
Depreciation	83.1	76.3	Public Service	105.1	105.7
Scholarships and Waivers	52.0	45.3	Institutional Support	96.9	73.0
Utilities and Communications	42.5	43.4	Academic Support	90.8	84.3
Self-Insured Claims and Expenses	21.5	14.0	Auxiliary Operations	86.1	78.6
Total Operating Expenses	\$ 1,383.3	\$ 1,273.2	Depreciation	83.1	76.3
			Operation and Maintenance of Plant	70.4	66.7
			Student Services	28.8	27.8
			Scholarships and Fellowships, Net (1)	9.9	11.0
			Other	0.9	0.5
			Total Operating Expenses	\$ 1,383.3	\$ 1,273.2

Note: (1) Net of Scholarship Allowances of \$57.4 million in the 2002-03 fiscal year, and \$47.7 million in the 2001-02 fiscal year.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State appropriations, gifts, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and costs related to capital assets. The following table summarizes the University's nonoperating revenues and expenses for the fiscal years ended June 30:

Nonoperating Revenues (Expenses) (In Millions)		
	<u>2003</u>	<u>2002</u>
State Appropriations	\$ 531.8	\$ 505.4
Investment Income	43.2	19.6
Other Nonoperating Revenues	12.8	10.2
Interest on Capital Asset-Related Debt	(7.0)	(7.4)
Other Nonoperating Expenses	(3.2)	(1.6)
Net Nonoperating Revenues	\$ 577.6	\$ 526.2

Other Revenues, Expenses, Gains, or Losses

This category is composed of capital appropriations, capital grants and gifts, and transfers. The following table summarizes the University's other revenues, expenses, gains or losses for the fiscal years ended June 30:

Other Revenues, Expenses, Gains, or Losses
(In Millions)

	<u>2003</u>	<u>2002</u>
Capital Appropriations	\$ 52.4	\$ 39.1
Capital Grants, Contracts, and Donations	29.6	40.7
Transfers	<u> </u>	<u>4.3</u>
Total Other Revenues	<u><u>\$ 82.0</u></u>	<u><u>\$ 84.1</u></u>

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the University's sources and uses of cash and cash equivalents during the fiscal year. This statement classifies sources and uses of cash and cash equivalents into the four categories defined by the GASB for the fiscal years ended June 30 as presented in the following table:

Summary of Cash Flows
(In Millions)

	<u>2003</u>	<u>2002</u>
Operating Activities		
Total Provided	\$ 840.0	\$ 754.2
Total Used	<u>(1,281.6)</u>	<u>(1,196.6)</u>
Net Cash Used by Operating Activities	<u>(441.6)</u>	<u>(442.4)</u>
Noncapital Financing Activities		
State Appropriations	531.8	505.4
Operating Subsidies and Transfers	0.2	5.4
Other	<u> </u>	<u>0.7</u>
Net Cash Provided by Noncapital Financing Activities	<u>532.0</u>	<u>511.5</u>
Capital and Related Financing Activities		
Capital Appropriations, Subsidies, Transfers, Grants and Gifts	103.6	95.8
Other Receipts and Proceeds	12.1	4.5
Purchases of Capital Assets	(153.0)	(138.4)
Principal and Interest Paid on Capital Debt and Leases	<u>(13.3)</u>	<u>(13.1)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(50.6)</u>	<u>(51.2)</u>
Investing Activities		
Net Cash (Used) Provided by Investing Activities	<u>(27.2)</u>	<u>4.2</u>
Net Increase in Cash and Cash Equivalents	12.6	22.1
Cash and Cash Equivalents, Beginning of Year	<u>112.7</u>	<u>90.6</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 125.3</u></u>	<u><u>\$ 112.7</u></u>

CAPITAL ASSETS, EXPENSES, COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2003, the University had approximately \$986.4 million invested in capital assets, net of accumulated depreciation of \$949.5 million. Depreciation charges for the current year totaled \$83.1 million. The following table summarizes the University's capital assets, net of accumulated depreciation at June 30:

Capital Assets, Net (In Millions)		
	<u>2003</u>	<u>2002</u>
Land	\$ 10.2	\$ 10.2
Infrastructure and Other Improvements	25.5	26.3
Buildings	555.3	511.6
Furniture and Equipment	226.1	207.5
Library Resources	61.7	60.2
Property Under Capital Lease and Leasehold Improvements	9.3	9.8
Other Capital Assets	4.1	3.3
Construction in Progress	<u>94.2</u>	<u>90.2</u>
Total Capital Assets, Net	<u><u>\$986.4</u></u>	<u><u>\$919.1</u></u>

Additional information about the University's capital assets is presented in note 7 to the financial statements.

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2003, were incurred on the following projects: New Bookstore with Attached Parking and Visitor/Welcome Center (\$15.4 million), Maintenance, Repairs, and Renovations (\$13.3 million), Utility/Infrastructure Improvements (\$8.1 million), UMC-Shands Jacksonville Proton-Beam Facility (\$7.1 million), and Weil Hall Renovation (\$6.6 million). The Hume Hall project (total capitalized costs of more than \$21 million) was completed in August 2002. The following table summarizes the University's major capital commitments with remaining balances over \$5 million as of June 30, 2003:

Capital Expense Commitments (Remaining Balance Over \$5 Million) (In Millions)			
Project	Current Commitment	Expenses	Commitment Balance
Orthopedics Surgery and Sports Medicine Institute	\$ 23.0	\$ 2.4	\$ 20.6
UMC - Shands Jacksonville Proton-Beam Facility	26.0	7.1	18.9
Library West Addition and Renovation	11.8	0.5	11.3
Holland Law Library Addition	9.9	0.8	9.1
Law School	7.7		7.7
2001-2002 Maintenance, Repairs, and Renovations	9.5	2.7	6.8
2002-2003 Maintenance, Repairs, and Renovations	8.1	1.5	6.6
Lepidoptera Facility	8.4	2.8	5.6
2001-2002 Critical Deferred Maintenance	6.6	1.2	5.4
Harn Sculpture Atrium	5.4	0.1	5.3
Constans Theater Addition	8.1	3.0	5.1
Projects with Remaining Balances Less Than \$5 Million	94.9	62.4	32.5
Total	\$219.4	\$ 84.5	\$134.9

Additional information about the University's capital commitments, including a listing of major commitments whose estimated cost is \$1 million or more, is presented in note 13 to the financial statements.

DEBT ADMINISTRATION

As of June 30, 2003, the University had approximately \$133.6 million in outstanding bonds and revenue certificates, installment purchase agreements, and capital leases, representing a decrease of \$5.8 million (4.2 percent) from the 2001-02 fiscal year. During the year, the State Board of Education issued \$50,545,000 of University System Improvement Revenue Refunding Bonds, Series 2003A. The University of Florida's portion of the refunding was used to defease outstanding University System Improvement Revenue Bonds, Series 1993 (Academic and Student Services Facilities Bonds). The following table summarizes the outstanding long-term debt described above as of June 30:

Long-Term Debt (In Millions)		
	2003	2002
Bonds and Revenue Certificates	\$ 129.1	\$ 135.0
Installment Purchase Agreements	0.5	0.3
Capital Leases	4.0	4.1
Total Long-Term Debt	\$ 133.6	\$ 139.4

Additional information about the University's long-term liabilities, including the current year refunding, is presented in note 9 to the financial statements.

ECONOMIC OUTLOOK

The changes in university governance in Florida mandate that the University of Florida devolve from the State on July 1, 2004. As a result of the devolution process, the University is designing and implementing its own personnel, payroll, accounting, and student services programs. The University's Enterprise Resource Planning (ERP) Project is a multi-year effort to implement the programs and to improve University business processes. The estimated cost of the project exceeds \$25 million.

The University expects an increase in revenue from student tuition and fees. Tuition and fee rates for the 2003-04 fiscal year have increased for resident undergraduates and graduate students by 8 percent and 14 percent, respectively; fees for nonresident undergraduate and graduate students have increased by 15 percent and 16 percent, respectively. Overall enrollment for Fall 2003 is up from Fall 2002 by 1.4 percent with graduate and professional enrollment up by 4.1 percent and 3.7 percent, respectively, and nonresident enrollment up by 4.4 percent.

FINANCIAL SECTION

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2003
(In Thousands)

	University	Component Units			Total Reporting Entity
		Direct Support Organizations	Health Science Center Affiliates	Shands Hospital and Others	
ASSETS					
Current Assets:					
Cash	\$ 22,527	\$ 25,984	\$ 37,091	\$ 60,673	\$ 146,275
Unexpended General Revenue Releases	79,402				79,402
Investments	446,795	21,067	11	116,053	583,926
Accounts Receivable, Net	70,834	38,535	44,551	140,709	294,629
Due from Primary Government/Component Units	59,159	59,574	14,574	3,284	136,591
Loans and Notes Receivable, Net	5,463	125			5,588
Inventories	3,981	835			4,816
Other Current Assets	652	4,222	1,504	81,474	87,852
Total Current Assets	688,813	150,342	97,731	402,193	1,339,079
Noncurrent Assets:					
Restricted Cash	21,460	606			22,066
Unexpended General Revenue Releases-Restricted	1,919				1,919
Restricted Investments	117,950	914,069	13,325	183,220	1,228,564
Loans and Notes Receivable, Net	27,734	5,142			32,876
Depreciable Capital Assets, Net	881,605	69,480	18,274	525,302	1,494,661
Nondepreciable Capital Assets	104,770	76,321	375	40,264	221,730
Other Noncurrent Assets	978	920	19,898	68,395	90,191
Total Noncurrent Assets	1,156,416	1,066,538	51,872	817,181	3,092,007
TOTAL ASSETS	\$ 1,845,229	\$ 1,216,880	\$ 149,603	\$ 1,219,374	\$ 4,431,086
LIABILITIES					
Current Liabilities:					
Accounts Payable	\$ 29,625	\$ 12,823	\$ 9,484	\$ 162,329	\$ 214,261
Accrued Salaries and Wages Payable	23,813	4,695	14,530	24	43,062
Due to Primary Government/Component Units	10,329	60,397	6,409	2,710	79,845
Deferred Revenue	22,989	59,944		47	82,980
Deposits Held in Custody	8,443	111	4	44	8,602
Obligations Under Securities Lending and Reverse Repurchase Agreements	80,267				80,267
Long-Term Liabilities - Current Portion:					
Bonds and Revenue Certificates Payable	5,962	1,365	415	8,807	16,549
Installment Purchase Agreements Payable	247			894	1,141
Capital Leases Payable	69		4	2,067	2,140
Compensated Absences Payable	5,747	1,263	1,313		8,323
Liability for Self-Insured Claims	9,060				9,060
Other Liabilities		7,008	9,848	103	16,959
Total Current Liabilities	196,551	147,606	42,007	177,025	563,189
Noncurrent Liabilities:					
Bonds and Revenue Certificates Payable	123,166	77,935	19,040	413,735	633,876
Installment Purchase Agreements Payable	243			892	1,135
Capital Leases Payable	3,935			11,182	15,117
Compensated Absences Payable	104,095	31	10,928		115,054
Liability for Self-Insured Claims	37,572				37,572
Other Noncurrent Liabilities		35,664	5,956	112,475	154,095
Total Noncurrent Liabilities	269,011	113,630	35,924	538,284	956,849
TOTAL LIABILITIES	465,562	261,236	77,931	715,309	1,520,038

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2003
(In Thousands)

	University	Component Units			Total Reporting Entity
		Direct Support Organizations	Health Science Center Affiliates	Shands Hospital and Others	
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	\$ 858,176	\$ 52,236	\$ 11,748	\$ 117,933	\$ 1,040,093
Restricted:					
Nonexpendable:					
Endowment		582,959		1,113	584,072
Expendable:					
Loans	47,846				47,846
Capital Projects	146,872				146,872
Debt Service	3,044				3,044
Other Restricted Net Assets	224,016	192,329		30,325	446,670
Unrestricted	99,713	128,120	59,924	354,694	642,451
Total Net Assets	1,379,667	955,644	71,672	504,065	2,911,048
TOTAL LIABILITIES AND NET ASSETS	\$ 1,845,229	\$ 1,216,880	\$ 149,603	\$ 1,219,374	\$ 4,431,086

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2003
(In Thousands)

	University	Component Units			Total Reporting Entity
		Direct Support Organizations	Health Science Center Affiliates	Shands Hospital and Others	
REVENUES					
Operating Revenues:					
Student Tuition and Fees, Net of Scholarship Allowances of \$57,375	\$ 148,171	\$	\$	\$	\$ 148,171
Federal Grants and Contracts	238,171				238,171
State and Local Grants and Contracts	50,778				50,778
Nongovernmental Grants and Contracts	246,894				246,894
Sales and Services of Auxiliary Operations	78,719				78,719
Sales and Services of Educational Departments	57,807				57,807
Sales and Services of Component Units		43,172		438	43,610
Hospital Revenues		916	290,337	1,207,848	1,499,101
Gifts and Donations - Component Units		127,880	19,857	29,434	177,171
Royalties and Licensing Fees - Component Units		34,694		964	35,658
Interest on Loans and Notes Receivable	949				949
Other Operating Revenues	3,383	6,809	17,540	41,418	69,150
Total Operating Revenues	824,872	213,471	327,734	1,280,102	2,646,179
EXPENSES					
Operating Expenses:					
Personnel Services	912,324				912,324
Supplies and Other Services	271,953				271,953
Utilities and Communications	42,509				42,509
Scholarships and Waivers	51,997				51,997
Depreciation	83,102				83,102
Self-Insured Claims and Expenses	21,465				21,465
Component Unit Operating Expenses		265,853	301,769	1,116,916	1,684,538
Total Operating Expenses	1,383,350	265,853	301,769	1,116,916	3,067,888
Operating Income (Loss)	(558,478)	(52,382)	25,965	163,186	(421,709)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	531,843				531,843
Investment Income (Loss)	43,188	17,324	2,675	(4,317)	58,870
Interest on Capital Asset-Related Debt	(7,026)	(2,166)	(192)		(9,384)
Other Nonoperating Revenues (Expenses)	9,618	1,938	(75,031)	20,581	(42,894)
Net Nonoperating Revenues (Expenses)	577,623	17,096	(72,548)	16,264	538,435
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	19,145	(35,286)	(46,583)	179,450	116,726
Capital Appropriations	52,408				52,408
Capital Grants, Contracts, and Donations	29,620			1,451	31,071
Addition to Permanent Endowments		31,416		1,013	32,429
Transfers From/(To) Component Units		123	44,026	(45,627)	(1,478)
Total Other Revenues, Expenses, Gains, or Losses	82,028	31,539	44,026	(43,163)	114,430
Increase in Net Assets	101,173	(3,747)	(2,557)	136,287	231,156
Net Assets, Beginning of Year	1,278,494	1,029,362	80,819	373,930	2,762,605
Adjustment to Beginning Net Assets		(69,971)	(6,590)	(6,152)	(82,713)
Adjusted Net Assets, Beginning of Year	1,278,494	959,391	74,229	367,778	2,679,892
Net Assets, End of Year	\$ 1,379,667	\$ 955,644	\$ 71,672	\$ 504,065	\$ 2,911,048

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2003
(In Thousands)

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees	\$ 147,263
Grants and Contracts	544,979
Sales and Services of Auxiliary Operations	79,199
Sales and Services of Educational Departments	57,864
Repayment of Loans Receivable	7,256
Interest on Loans Receivable	1,006
Other Operating Receipts	2,406
Payments to Employees	(902,423)
Payments to Suppliers	(245,182)
Payments for Scholarships and Fellowships	(51,997)
Loans Issued to Students	(7,404)
Payments on Self-Insured Claims	(13,315)
Other Operating Expenses	(61,294)
Net Cash Used by Operating Activities	<u>(441,642)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	531,843
Direct Loan Program Receipts	128,685
Direct Loan Program Disbursements	(128,753)
Operating Subsidies and Transfers	159
Funds Held for Others	(53)
Other Nonoperating Receipts	1,239
Other Nonoperating Expenses	(1,142)
Net Cash Provided by Noncapital Financing Activities	<u>531,978</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	37,558
Capital Subsidies and Transfers	40,419
Capital Grants and Gifts Received	25,643
Proceeds from Sales of Capital Assets	12,060
Other Receipts for Capital Projects	20
Purchases of Capital Assets	(152,958)
Principal Paid on Capital Debt and Leases	(6,337)
Interest Paid on Capital Debt and Leases	(6,949)
Net Cash Used by Capital and Related Financing Activities	<u>(50,544)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of Investments	857,591
Purchase of Investments	(910,087)
Interest on Investments	25,304
Net Cash Used by Investing Activities	<u>(27,192)</u>
Net Increase in Cash and Cash Equivalents	12,600
Cash and Cash Equivalents, Beginning of Year	<u>112,708</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 125,308</u></u>

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2003
(In Thousands)

	<u>University</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (558,478)
Adjustments to Reconcile Net Operating Loss to	
Net Cash Used by Operating Activities:	
Depreciation Expense	83,102
Changes in Assets and Liabilities:	
Receivables, Net	9,011
Inventories	(112)
Other Assets	(237)
Accounts Payable	7,720
Accrued Salaries and Wages Payable	4,866
Liability for Self-Insured Claims	8,150
Deferred Revenue	(676)
Deposits Held for Others	(22)
Compensated Absences	5,034
	<u>5,034</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (441,642)</u></u>

SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL
FINANCING ACTIVITY

The State Board of Education, on behalf of the University, extinguished \$13,032,213 of outstanding University System Improvement Revenue Bonds with the issuance of \$12,359,757 of University System Improvement Revenue Refunding Bonds.

The accompanying notes to financial statements are an integral part of this statement.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the University of Florida are described below to enhance the usefulness of the financial statements.

Reporting Entity. The University of Florida is a separate public instrumentality that is part of a state university system of public universities. A constitutional amendment effective January 7, 2003, created a board of governors to be responsible for the management of the state university system. A separate board of trustees shall administer each public university.

The University of Florida Board of Trustees (Trustees) consists of thirteen members. The Governor appoints six citizen members and the Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The chair of the faculty senate and the president of the student body of the University also are members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provides governance in accordance with Florida law, State Board of Education rules, and the Board of Governors. The Trustees select the University President and the State Board of Education must ratify the candidate selected. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees for the University.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. Application of these criteria determines 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 or incomplete. Based on the application of these criteria, the University of Florida is a component unit of the State of Florida and its financial activity is reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Blended Component Unit. Based on the application of the criteria for determining component units, the University of Florida Healthcare Education Insurance Company (UFHEIC) is included within the University reporting entity as a blended component unit. The UFHEIC was created on September 1, 1994, as a self-insurance mechanism created pursuant to Section 1004.24, Florida Statutes. Although legally separate from the University of Florida (the company's single share of stock is owned by the Florida Board of Governors),

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the company's sole purpose is to assist in providing liability protection for the University of Florida Board of Trustees and its affiliated individuals and entities, and is therefore reported as if it is part of the University.

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following organizations are included within the University reporting entity as discretely presented component units. The University further categorizes its identified component units as Direct-Support Organizations, Health Science Center Affiliates, and Shands Teaching Hospital and Others. Additional information on the University's component units, including copies of audit reports, is available by contacting the University Controller's Office.

Direct-Support Organizations. The University's direct-support organizations, as provided for in Section 1004.28, Florida Statutes, and State Board of Education Rule 6C-9.011, Florida Administrative Code, are considered component units of the University of Florida and therefore the latest audited financial statements of these organizations are included in the financial statements of the University by discrete presentation. These are separate, not-for-profit corporations organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest and administer property and to make expenditures to or for the benefit of the University. An annual audit of each organization's financial statements is conducted by independent certified public accountants. The annual report is submitted to the Auditor General and the University Board of Trustees. These not-for-profit corporations and their purposes are explained as follows:

- University of Florida Foundation, Inc., solicits, collects, manages, and directs contributions to the various academic departments and programs of the University and assists the University in fund raising, public relations, and maintenance of alumni records.
- University of Florida Research Foundation, Inc., promotes, encourages, and assists research activities of the University through income derived from or related to the development and commercialization of intellectual properties, which include inventions, discoveries, processes, and work products.
- University Athletic Association, Inc., conducts various inter-collegiate athletic programs for and on behalf of the University.
- Gator Boosters, Inc., supports athletic activities at the University.
- University of Florida Law Center Association, Inc., supports the College of Law.
- Florida Foundation Seed Producers, Inc., supplies Florida farmers and producers with crop seed and nursery stock. This organization stocks foundation seed of the best-known varieties acceptable to Florida climate and soils in adequate quantities and at reasonable prices.

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- Florida 4-H Club Foundation, Inc., promotes the educational objectives of the Florida Cooperative Extension Service.
- Florida Association of Basic Medical Scientists, Inc., promotes research and education in the basic medical sciences.
- Southwest Florida Research and Education Foundation, Inc., provides research and educational support to the University of Florida Southwest Florida Research and Education Center.
- Citrus Research and Education Foundation, Inc., expedites citrus production, propagates new plant materials, collects and analyzes environmental impact research data, and provides research and education support to the University of Florida Citrus Research and Education Center at Lake Alfred.
- Florida Leadership and Education Foundation, Inc., was formed to further agriculture and natural resource education and related activities, promote agriculture and natural resources leadership, and make contributions to and confer benefits upon the University.
- Treasure Coast Agricultural Research Foundation, Inc., supports, encourages, and fosters research, education, and extension at the Institute of Food and Agricultural Sciences of the University on issues related to the citrus industry within the Indian River region.
- University of Florida Alumni Association, Inc., supports activities of the alumni of the University of Florida.

Health Science Center Affiliates. The financial operations and financial position of the following corporations closely affiliated with the University of Florida J. Hillis Miller Health Science Center (JHMH) are considered to be component units of the University of Florida and therefore the latest audited statements of these organizations are included in the financial statements of the University by discrete presentation:

- Florida Clinical Practice Association, Inc.
- UF Jacksonville Physicians, Inc.
- Faculty Associates, Inc.
- Florida Health Professions Associations, Inc.
- UF College of Nursing Faculty Practice Association, Inc.
- UF College of Pharmacy Faculty Practice Association, Inc.
- Florida Veterinary Medicine Faculty Association, Inc.
- UF Health Services, Inc.
- UF Jacksonville Healthcare, Inc.
- Faculty Clinic, Inc., d.b.a. UF Faculty Clinic/Jacksonville
- Jacksonville Health Education Programs, Inc.

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The first seven corporations listed are Faculty Practice Plans, as provided for in the State Board of Education Rule 6C-9.017, Florida Administrative Code. The Faculty Practice Plans provide educationally-oriented clinical practice settings and opportunities through which faculty members provide health, medical, and dental care to patients as an integral part of their academic activities and their employment as faculty. Because these faculty practice activities generate income, the colleges are authorized to regulate fees generated from faculty practice and maintain Faculty Practice Plans for the orderly collection and distribution of fees. These organizations provide significant support for the clinical instruction function of the JHMHC.

University of Florida Health Services, Inc., and University of Florida Jacksonville Healthcare, Inc., Health Services Support Organizations, as provided for in the State Board of Education Rule 6C-9.020, Florida Administrative Code, engage in strategic alliances and partnerships with nonacademic entities, effecting managed care contracting and provider network development for the JHMHC. Faculty Clinic, Inc., was originally organized to operate a multi-specialty clinic. However, effective January 1, 1995, Faculty Clinic, Inc., was restructured to operate as a facilities management company. Jacksonville Health Education Programs, Inc., operates the Borland Medical Library in Jacksonville, Florida.

Shands Teaching Hospital and Others

- Shands Teaching Hospital and Clinics, Inc., was incorporated October 15, 1979, as a not-for-profit corporation. Shands, a major tertiary care teaching institution, is a leading referral center in the State of Florida and the southeast United States and facilitates medical education programs at the University.

Shands entered into a contractual agreement, as of July 1, 1980, with the State Board of Education of the State of Florida, as subsequently restated and amended, which provides for the use of hospital facilities at the University of Florida Health Science Center through December 31, 2030, with renewal provisions. The contractual agreement also provides for the transfer to Shands of all other assets and liabilities arising from the operation of the hospital facilities prior to July 1, 1980. At termination of the contractual agreement, the net assets of Shands revert to the State Board of Education. Legal title to all buildings and improvements transferred to Shands remains with the State of Florida during the term of the contractual agreement. The contractual agreement provides for a 12-month grace period for any event of default, other than the bankruptcy of Shands. In addition, the contractual agreement limits the right of the State Board of Education to terminate the contractual agreement solely to the circumstance in which Shands declares bankruptcy and, in such event, requires net revenues derived from the operation of the hospital facilities to continue to be applied to the payment of Shands' debts.

Under the terms of the contractual agreement, Shands is obligated to manage, operate, maintain, and insure the hospital facilities in support of the programs of the Health Science Center at the University of Florida and further agrees to contract with the State Board of Education for the provision of these programs. By operation of law, the University of Florida Board of Trustees has become the successor-in-interest to the State Board of Education.

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- Baby Gator Child Care Center, Inc., was incorporated October 19, 1970, under Section 1011.48, Florida Statutes, to establish and operate an educational research center for child development for children of University of Florida students, faculty, and staff. The Center is funded primarily through fees paid by parents and an annual allocation of funds from the Capital Improvement Trust Fund established by the State Board of Education. In addition, the Center receives other governmental assistance. The Center uses a facility owned by the University without charge. The University also provides other services and support for the Center, some also without charge. The Center's policy is to not record contributed facilities, services, and other support in its financial statements.
- University Village Apartments, Inc. (the Corporation), was established in 1969, for the purpose of providing housing for low and moderate-income families, especially those affiliated with the University of Florida. Capital was contributed at inception by the University of Florida Foundation, Inc., but no capital stock was issued because the Corporation does not operate for the benefit of any special interest.

The Corporation provides housing under Section 221(d)(3) of the National Housing Act. The facility consists of 28 two-story buildings regulated by the U. S. Department of Housing and Urban Development (HUD) as to rent charges and operating methods. The Corporation's major program is its Section 221 insured loan, which is in the repayment phase. Legal title to the property is held by the Corporation.

Basis of Presentation. The University's accounting policies conform to generally accepted accounting principles applicable to public colleges and universities as prescribed by the Governmental Accounting Standards Board (GASB). The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB).

In November 1999, the GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. This Statement includes public colleges and universities within the financial reporting guidelines of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. GASB Statement No. 35 allows public colleges and universities the option of reporting as a special-purpose government engaged in only business-type activities, engaged in only governmental activities, or engaged in both governmental and business-type activities. The State universities, including the University of Florida, elected to report as entities engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity-wide reporting including the following components:

- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Assets

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- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statements

The University of Florida is a component unit of the State of Florida for financial reporting purposes. The financial balances and activities included in these financial statements are, therefore, also included in the State's Comprehensive Annual Financial Report.

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. Auxiliary service departments account for interdepartmental transactions as reductions of expenses and not revenues of those departments.

The University's principal operating activities consist of instruction, research and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities plus administration, operation and maintenance of plant assets, and depreciation on capital assets. Included in nonoperating revenues are State appropriations, investment income, and revenues for capital construction projects. Interest on asset-related debts is a nonoperating expense.

The University follows FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The statement of net assets is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, grants, etc., it is the University's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the University and the amount that is actually paid by the student

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or the third party making payment on behalf of the student. The University applied "The Alternate Method" as prescribed in *NACUBO Advisory Report 2000-05* to determine the tuition scholarship allowances reported in the statement of revenues, expenses, and changes in net assets. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be third-party aid.

The statement of cash flows is presented using the direct method and is in compliance with GASB Statement No. 9, *Reporting Cash Flow for Proprietary and Nonexpendable Trust Funds*. Cash and cash equivalents as presented in the statement of cash flows includes cash and unexpended general revenue releases.

Capital Assets. University capital assets consist of land, buildings, infrastructure and other improvements, furniture and equipment, property under capital lease and lease improvements, library resources, works of art and historical treasures, construction in progress, and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at appraised value at the date received in the case of gifts or purchases of State surplus property. Additions, improvements and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$1,000 for all movable equipment items and a \$100,000 threshold or 25 percent of the cost of the building for building renovations and improvements. Depreciation is computed on the straight-line basis over the estimated useful life of the related assets.

The following ranges of estimated useful lives were used to determine depreciation expense:

- Buildings and Improvements – 20 to 50 Years, Depending on Construction
- Infrastructure and Other Improvements – 12 to 50 Years
- Leasehold Improvements – 5 to 20 Years or the Term of the Lease, Whichever is Less
- Furniture and Equipment:
 - Equipment (Nonoffice) – 10 to 20 Years
 - Computer Equipment – 3 to 7 Years
 - Moveable Equipment – 3 to 20 Years
- Library Resources – 10 Years

Other Significant Accounting Policies. Other significant accounting policies are set forth in the financial statements and subsequent notes hereafter.

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2. CASH

The amount reported as cash consists of cash on hand, cash in demand accounts, and cash held in the State of Florida Treasury. Cash set aside to make debt service payments, maintain sinking or reserve funds, and to purchase or construct capital assets is classified as restricted. Cash in demand accounts is held in banks qualified in accordance with the provisions of Chapter 280, Florida Statutes, as a public depository. Deposits are fully insured by Federal depository insurance or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. As of June 30, 2003, deposits in foreign banks totaled \$76,859.

3. INVESTMENTS

The University participates in investment pools through the State Treasury and the State Board of Administration in accordance with the provisions of Sections 17.61 and 215.49, Florida Statutes. The investments conform with the guidelines established by Section 215.47, Florida Statutes, and are reported at market value.

Additionally as authorized by Section 1004.24(2), Florida Statutes, and specifically authorized by the former Board of Regents in 1995, the University has invested assets of the Health Science Center Self-Insurance Program outside the State Treasury. Local investments consist of instruments listed in Section 215.47, Florida Statutes, and are reported at market value. The University has also received donations of marketable securities. These securities are reported at market value.

Investments set aside to make debt service payments, maintain sinking or reserve funds, and to purchase or construct capital assets are classified as restricted.

Generally accepted accounting principles require the classification of credit risk of investments into the following three categories:

- Risk Category 1 – Insured or registered, or securities held by the entity or its agent in the entity's name.
- Risk Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.
- Risk Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name.

University investments in the investment pools managed by the State Treasury and the State Board of Administration cannot be categorized because the University's investments are not evidenced by specific, identifiable investment securities.

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Under the State Treasury's authority to purchase and sell securities, it has entered into securities lending and reverse repurchase agreements. A securities lending agreement is a loan of securities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. A reverse repurchase agreement is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. As required by generally accepted accounting principles, the University has reported investments and an offsetting current liability of \$80,267,113 in order to account for these transactions. Required note disclosures for these agreements are reported in the State's Comprehensive Annual Financial Report.

Investments of the University at June 30, 2003, are shown in the following table:

	Investments			Market Value
	Risk Category			
	1	2	3	
United States Government and Federally-Guaranteed Obligations	\$	\$ 22,033,446	\$	\$ 22,033,446
Federal Agency Obligations		6,274,436		6,274,436
Bonds and Notes		13,351,677		13,351,677
Stocks	17,676	13,304,170		13,321,846
Certificates of Deposits	750,000			750,000
Total Classified Investments	\$767,676	\$ 54,963,729	\$	55,731,405
External Investments Pools:				
Florida State Treasury				505,454,813
Florida State Board of Administration				766,794
Money Market and Mutual Funds				2,791,330
Total University Investments				\$ 564,744,342

Investments held by the University's component units at June 30 are reported at market value based on quoted market prices and are shown in the following table:

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	Investments			Market Value
	1	Risk Category 2	3	
United States Government and Federally-Guaranteed Obligations	\$ 113,539,917	\$	\$ 9,437,657	\$ 122,977,574
Federal Agency Obligations			3,481,990	3,481,990
Commercial Paper		994,000	1,748,499	2,742,499
Bonds and Notes	71,524,206	307,000	3,887,346	75,718,552
Stocks	235,122,530		5,884,266	241,006,796
Certificates of Deposit	215,104	833,572		1,048,676
Total Classified Investments	\$ 420,401,757	\$ 2,134,572	\$ 24,439,758	446,976,087
Investment Agreements				126,270,551
Real Estate Agreements				9,822,179
Money Market and Mutual Funds				664,675,295
Total Component Units Investments				\$ 1,247,744,112

4. RECEIVABLES

Accounts Receivable. Accounts receivable reported in the statement of net assets represent amounts for student fees and various student services provided by the University, various auxiliary services provided to students and third parties, grant reimbursements from third parties and interest accrued on investments.

Loans and Notes Receivable. Loans and notes receivable represent all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs.

Allowances for Uncollectible Receivables. The University provides allowances for uncollectible accounts and loans and notes receivable based upon management's best estimate of uncollectible accounts and notes at fiscal year-end, considering type, age, collection history of receivables, and any other factors as considered appropriate. Accounts receivable are reported net of an allowance of \$7,924,620, which is 10 percent of total related accounts receivable. Loans and notes receivable are reported net of an allowance for uncollectible loans and notes of \$3,609,749, which is 10 percent of total related loans and notes receivable.

5. DUE FROM AND TO PRIMARY GOVERNMENT/COMPONENT UNITS

The University of Florida is a component unit of the State of Florida (see note 1). The University's financial statements are reported for the fiscal year ended June 30, 2003. The University's component units financial statements are reported for their most recent fiscal year in which an audit report is available. In some cases, the fiscal year end is not June 30, 2003. Accordingly, amounts reported by the component units and the

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University as Due From and To Primary Government/Component Units on the statement of net assets may not agree.

6. INVENTORIES

Inventories have been categorized into the following two types:

- Departmental Inventories – These inventories are maintained by departments, and are not available for resale. Departmental inventories are comprised of such items as classroom and laboratory supplies, teaching materials, and office supply items, which are consumed in the teaching and work process. These inventories are normally expensed when purchased and therefore are not reported on the statement of net assets.
- Merchandise Inventories – These inventories are available for resale to individuals and other University departments, and are not expensed at the time of purchase. These inventories are reported on the statement of net assets, and are valued at cost using either the moving average method or the first-in, first-out method.

7. CAPITAL ASSETS

The activity of the University's major classes of capital assets for the 2002-03 fiscal year is presented in the following table:

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Description	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 10,145,884	\$	\$ 26,614	\$ 10,119,270
Construction in Progress	90,245,461	82,290,471	78,298,642	94,237,290
Works of Art and Historical Treasures	413,062			413,062
Total Nondepreciable Capital Assets	100,804,407	82,290,471	78,325,256	104,769,622
Depreciable Capital Assets				
Buildings	982,743,890	76,810,533	2,917,930	1,056,636,493
Infrastructure and Other Improvements	58,146,749	787,848	12,135	58,922,462
Furniture and Equipment	459,593,218	62,523,923	34,547,160	487,569,981
Library Resources	198,431,392	13,314,327	500,874	211,244,845
Property Under Capital Lease and Lease Improvements	9,815,002			9,815,002
Works of Art and Historical Treasures	300,093	24,592	6,050	318,635
Other Capital Assets	6,034,468	1,981,238	1,463,484	6,552,222
Total Depreciable Capital Assets	1,715,064,812	155,442,461	39,447,633	1,831,059,640
Less, Accumulated Depreciation:				
Buildings	470,716,752	32,564,698	1,922,198	501,359,252
Infrastructure and Other Improvements	31,819,868	1,619,785	6,237	33,433,416
Furniture and Equipment	252,144,460	35,160,510	25,865,637	261,439,333
Library Resources	138,223,160	11,283,009		149,506,169
Property Under Capital Lease and Lease Improvements	462,000	75,500		537,500
Works of Art and Historical Treasures	104,590	23,049	6,050	121,589
Other Capital Assets	3,336,949	929,152	1,208,824	3,057,277
Total Accumulated Depreciation	896,807,779	81,655,703	29,008,946	949,454,536
Total Depreciable Capital Assets, Net	818,257,033	73,786,758	10,438,687	881,605,104
Total Capital Assets, Net	\$ 919,061,440	\$ 156,077,229	\$ 88,763,943	\$ 986,374,726

Depreciation expense reported on the statement of revenues, expenses, and changes in net assets include net losses on disposition of capital assets and other minor adjustments totaling \$1,446,314.

8. MUSEUM AND ART COLLECTIONS

The Florida Museum of Natural History, which is part of the University, maintains a depository of biological, geological, archaeological, and ethnographic materials. The Museum's collections contain approximately 20,000,000 individual items, more than half of which are catalogued, either individually or in lots. While many of the collections are undoubtedly quite valuable and irreplaceable, the University has not placed a dollar valuation on these items and, accordingly, the financial statements do not include these assets.

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9. LONG-TERM LIABILITIES

Long-term liabilities of the University include bonds and revenue certificates, installment purchase agreements, capital leases, compensated absences, and self-insured claims.

The following table presents the University's long-term liabilities activity for the fiscal year ended June 30, 2003:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and Revenue Certificates	\$ 134,967,455	\$ 12,893,849	\$ 18,732,821	\$ 129,128,483	\$ 5,962,327
Installment Purchase Agreements	358,254	301,524	170,139	489,639	246,786
Capital Leases	4,068,461		64,750	4,003,711	68,927
Compensated Absences	104,808,194	5,034,007		109,842,201	5,746,705
Liability for Self-Insured Claims	38,482,628	18,666,592	10,516,413	46,632,807	9,060,428
Total Long-Term Liabilities	\$ 282,684,992	\$ 36,895,972	\$ 29,484,123	\$ 290,096,841	\$ 21,085,173

Bonds and Revenue Certificates Payable. Bonds and revenue certificates were issued to construct University facilities, including parking garages, student housing, and academic and student service facilities. Bonds and revenue certificates outstanding, which include both term and serial bonds, are secured by a pledge of housing rental revenues, traffic and parking fees, and various student fee assessments. The building fee and capital improvement fee, collected as a part of tuition and remitted to the State Board of Education, is used to retire the revenue certificates for the academic and student service facilities.

The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

- On April 10, 2003, the State Board of Education issued \$50,545,000 of University System Improvement Revenue Refunding Bonds, Series 2003A. The University of Florida's portion of the refunding bonds (\$12,359,757) was used to defease \$13,032,213 of outstanding University System Improvement Revenue Bonds, Series 1993. Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University of Florida's statement of net assets. As a result of the refunding, the University reduced its debt service requirement by \$1,468,647 over the next 10 years and obtained an economic gain of \$1,262,328. At June 30, 2003, the outstanding balance of the defeased bonds was \$13,032,213.

A summary of pertinent information related to the University's bond indebtedness is presented in the following table:

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Bonds	Amount of Original Issue	Total Retired	Amount Outstanding		Interest Rate (Percent)	Annual Maturity To
			Principal	Interest		
Student Housing Bonds:						
1959E	\$ 3,730,000	\$ 3,437,000	\$ 293,000	\$ 12,180	3.00	2005
1959F	1,500,000	1,070,000	430,000	59,700	3.00	2011
1974	2,880,000	2,665,000	215,000	15,050	7.00	2004
1984	3,500,000	1,775,000	1,725,000	324,900	3.00	2014
1993	13,000,000	2,025,000	10,975,000	7,436,312	5.00 - 5.50	2023
1998	26,155,000	2,425,000	23,730,000	14,515,048	4.00 - 5.00	2028
2000	30,695,000	455,000	30,240,000	28,919,924	5.00 - 7.00	2030
Subtotal	81,460,000	13,852,000	67,608,000	51,283,114		
Parking Garage Bonds:						
1993	19,545,000	8,455,000	11,090,000	2,604,183	4.40 - 5.00	2013
1998	10,000,000	1,110,000	8,890,000	3,596,133	3.65 - 4.75	2018
Subtotal	29,545,000	9,565,000	19,980,000	6,200,316		
Academic and Student Services Facilities Bonds:						
1991	5,686,923	5,686,923				2003
1993	22,548,089	22,548,089				2003
1997	11,349,317	1,805,467	9,543,850	5,942,938	5.00 - 7.00	2022
1997A	4,723,765	212,484	4,511,281	1,884,246	4.20 - 5.00	2016
1998	13,783,839	1,701,809	12,082,030	6,713,212	4.00 - 5.00	2023
2001	4,259,373	146,359	4,113,014	2,655,301	4.00 - 5.00	2026
2003A	12,359,757	174,839	12,184,918	3,326,999	3.00 - 5.00	2013
Subtotal	74,711,063	32,275,970	42,435,093	20,522,696		
Less, Bond Discounts			1,415,350			
Add, Bond Premium			1,169,320			
Less, Refunding Loss			648,580			
Total Bonds	\$185,716,063	\$ 55,692,970	\$ 129,128,483	\$ 78,006,126		

Principal and interest requirements on the bonded debt outstanding as of June 30, 2003, are presented in the following table:

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<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 5,962,327	\$ 6,470,100	\$ 12,432,427
2005	5,904,347	6,193,570	12,097,917
2006	6,043,699	5,913,722	11,957,421
2007	6,306,707	5,623,407	11,930,114
2008	6,363,557	5,316,757	11,680,314
2009-2013	31,814,490	22,248,434	54,062,924
2014-2018	27,280,583	14,692,965	41,973,548
2019-2023	23,232,071	8,036,257	31,268,328
2024-2028	13,055,312	3,188,564	16,243,876
2029-2030	4,060,000	322,350	4,382,350
Subtotal	130,023,093	78,006,126	208,029,219
Less, Bond Discounts	1,415,350		1,415,350
Add, Bond Premium	1,169,320		1,169,320
Less, Refunding Loss	648,580		648,580
Total	\$ 129,128,483	\$ 78,006,126	\$ 207,134,609

Installment Purchase Agreements. The University has entered into several installment purchase agreements for the purchase of equipment reported at \$1,346,248. The following is a schedule of future minimum payments remaining under the agreements at fiscal year end. The stated interest rates ranged from 1.82 percent to 5.91 percent.

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2004	\$ 258,242
2005	173,229
2006	29,869
2007	27,104
2008	20,313
Total Minimum Payments	508,757
Less, Interest	19,118
Total Present Value	\$ 489,639

Obligations Under Capital Lease. On June 8, 1994, the former Board of Regents, on behalf of the University of Florida, entered into a lease agreement with the University of Florida Foundation, Inc. (the Foundation), a direct-support organization (component unit) of the University. Under the terms of the agreement, the University agreed to lease from the Foundation a 607-space parking garage (the garage) located near the Health Science Center Administrative Offices for a period of thirty years beginning July 1, 1994. Lease payments of \$100,000 annually are due each July 1. The garage was simultaneously acquired by

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the Foundation from Shands Teaching Hospital and Clinics, Inc. (Shands), also a component unit, and financed by the Foundation through the issuance of a promissory note secured by a nonrecourse mortgage containing payment terms similar to those in the lease agreement between the Foundation and the University. Lease payments from the University to the Foundation and from the Foundation to Shands were based on an original construction cost of \$3,000,000 and no interest. For reporting purposes, the lease is considered a capital lease under Financial Accounting Standards Board (FASB) Statement No. 13, *Accounting for Leases*. The initial obligation was discounted at an imputed interest rate of 6.45 percent and was recorded at \$1,382,470. The asset, "Leased Property Under Capital Lease," was recorded at cost to Shands of \$3,000,000.

On March 1, 2000, the University, acting for and on behalf of the former Board of Regents, entered into a lease agreement with Shands. Under the terms of the agreement, the University agreed to lease from Shands an 800-space parking garage (the garage) located near the Health Science Center Administrative Offices for a period of thirty years beginning March 1, 2000. Lease payments of \$227,167 annually are due each May 1, beginning May 1, 2001. Lease payment amounts were based on an original construction cost of \$6,815,002 and no interest. For reporting purposes, the lease is considered a capital lease under FASB Statement No. 13, *Accounting for Leases*. The initial obligation was discounted at an imputed interest rate of 6.45 percent and was recorded at \$2,981,939. The asset, "Leased Property Under Capital Lease," was recorded at cost to Shands of \$6,815,002.

The following table summarizes pertinent information related to the two capital leases:

	Interest Rate (Percent)	Original Balances	Outstanding Balance at 6-30-03
Shands 607-Space Parking Garage	6.45	\$ 1,382,470	\$ 1,133,152
Shands 800-Space Parking Garage	6.45	2,981,939	2,870,559
Total		<u>\$ 4,364,409</u>	<u>\$ 4,003,711</u>

Principal and interest requirements on the outstanding balances are presented in the following table:

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<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 68,927	\$ 258,240	\$ 327,167
2005	73,373	253,794	327,167
2006	78,106	249,061	327,167
2007	83,144	244,023	327,167
2008	88,507	238,660	327,167
2009-2013	535,892	1,099,942	1,635,834
2014-2018	732,496	903,338	1,635,834
2019-2023	1,001,229	634,605	1,635,834
2024-2028	928,163	307,671	1,235,834
2029-2030	413,874	40,460	454,334
Total	\$ 4,003,711	\$ 4,229,794	\$ 8,233,505

Compensated Absences Liability. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to State Board of Education Rule 6C-5.920, Florida Administrative Code, and pursuant to bargaining agreements with the United Faculty of Florida. Leave earned is accrued to the credit of the employee, and records are kept on each employee's unpaid (unused) leave balance. GASB Statement No. 16 requires that the University accrue a liability in the statement of net assets for employees' vested right to receive compensation for future absences when certain conditions are met, whereas State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. Consequently, the recording of the liability for compensated absences, without the corresponding recognition of such future resources, results in the appearance of a reduced ability to meet current obligations. At June 30, 2003, the total estimated liability for annual, sick, and compensatory leave, which includes the University's share of the Florida Retirement System and FICA contributions, was \$54,458,573, \$55,108,719, and \$274,909, respectively. The current portion of the compensated absences liability is based on actual payouts over the last three years, calculated as a percentage of those years' total compensated absences liability. The University's total net assets balance at June 30, 2003, of \$1,379,667,018 would have been \$1,489,509,219 had the liability for compensated absences not been applied against it.

10. INTERDEPARTMENTAL AUXILIARY SALES

Interdepartmental sales between auxiliary service departments and other institutional departments have been eliminated from expenses and revenues for reporting purposes. The interdepartmental transactions eliminated in the financial statement preparation totaled \$68,588,505 for the fiscal year ended June 30, 2003.

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11. OPERATING LEASES

The University has long-term commitments for assets leased under operating lease agreements. These leased assets and the related commitments are not reported on the University's statement of net assets. Operating lease payments are recorded as expenses of the related funds when paid or incurred, and are reported in the statement of revenues, expenses, and changes in net assets. Outstanding commitments resulting from these lease agreements are not considered material and are contingent upon future appropriations.

12. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The operating expenses on the statement of revenues, expenses, and changes in net assets are presented in the natural classifications. The following table presents those same expenses in functional classifications as recommended by NACUBO. The functional classification (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of academic departments for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the departments consists of instructional program elements, all expenses of the departments are reported under the instruction classification.

Function	Amount (In Thousands)
Instruction	\$ 439,789
Research	371,532
Public Service	105,047
Academic Support	90,825
Student Services	28,826
Institutional Support	96,941
Operations and Maintenance of Plant	70,439
Scholarships and Fellowships	9,877
Auxiliary Operations	86,123
Loan Operating Expenses	849
Depreciation	83,102
Total Operating Expenses	\$ 1,383,350

13. CONSTRUCTION COMMITMENTS

A summary of major construction commitments (\$1 million or more) at June 30, 2003, is presented in the following table:

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Project Name	Current Commitment	Expenses	Commitment Balance
Quarantine Facility-Indian River REC	\$ 3,889,000	\$ 406,081	\$ 3,482,919
PK Yonge Laboratory School Structural Emergency Phase I	8,000,000	4,932,589	3,067,411
Security Lighting	2,531,003	1,896,569	634,434
Harn Sculpture Atrium	5,400,000	135,666	5,264,334
Orthopedics Surgery and Sports Medicine Institute	23,000,000	2,350,094	20,649,906
New Bookstore with Attached Parking and Visitor/Welcomes Center	18,250,000	15,380,526	2,869,474
Murphree Residence Hall Electrical Upgrade	2,975,556	2,687,425	288,131
Law School	7,697,458		7,697,458
Diamond Village Renovation	6,380,393	4,276,954	2,103,439
Constans Theater Addition	8,070,355	3,011,978	5,058,377
Accounting Classroom Building	9,063,800	4,660,338	4,403,462
Genetic and Cancer Research Center	5,400,000	1,125,230	4,274,770
IFAS Gulf Coast REC Renovations and Repairs	1,500,000	151,485	1,348,515
Weil Hall Renovation	8,382,721	6,550,750	1,831,971
Library West Addition and Renovation	11,793,000	520,658	11,272,342
IFAS Relocation and Construction Trust Fund	6,006,691	3,093,979	2,912,712
Holland Law Library Addition	9,924,000	806,405	9,117,595
Lepidoptera Facility	8,400,000	2,775,268	5,624,732
Development and Upgrade of Active/Passive Recreational Facility	1,700,000	97,886	1,602,114
Utility/Infrastructure Improvements	11,195,869	8,102,336	3,093,533
2000-2001 Maintenance, Repairs, and Renovations	9,591,929	8,959,542	632,387
2001-2002 Critical Deferred Maintenance	6,580,340	1,150,266	5,430,074
UMC-Shands Jacksonville Proton-Beam Facility	26,000,000	7,130,932	18,869,068
2001-2002 Maintenance, Repairs, and Renovations	9,526,563	2,762,300	6,764,263
2002-2003 Maintenance, Repairs, and Renovations	8,114,801	1,553,564	6,561,237
Total	\$ 219,373,479	\$ 84,518,821	\$ 134,854,658

14. RETIREMENT PLANS

Florida Retirement System. Most employees working in regularly established positions of the University are covered by the Florida Retirement System, a State-administered cost-sharing, multiple-employer, public employee defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein plan eligibility, contributions, and benefits are defined and described in detail. Participating employers include all State departments, counties, district school boards, universities and community colleges. Many municipalities and special districts have elected to be participating employers. Essentially, all regular employees of participating employers are eligible and must enroll as members of the Plan.

The Florida Legislature has reduced the vesting period from 10 to 6 years of service. Any member employed in a regularly established position on July 1, 2001, with a total of 6 or more years of creditable service will be considered vested. Former members who are not employed with a participating Plan employer on July 1, 2001, must return to covered employment for one year to become eligible for the six-year vesting provision.

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An exception to this one-year requirement applies to former members who are within one year of vesting under the pre-2001 vesting requirements. These members will only be required to work the lesser of one year or the amount of time it would have taken to vest in their class of membership prior to July 1, 2001. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (DROP), subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly retirement benefit payments while continuing employment with a Florida Retirement System employer. An employee may participate in the DROP for a period not to exceed 60 months after the participation election date. During DROP participation, the deferred monthly benefit accruing on behalf of the participant, plus interest compounded monthly, is held in the Florida Retirement System Trust Fund. Upon termination of employment, the participant receives the total DROP benefits and begins to receive previously determined retirement benefits.

The Plan's financial statements and other supplemental information are included in the State's Comprehensive Annual Financial Report, which is available from the State of Florida, Department of Financial Services in Tallahassee, Florida. An annual report on the Plan, which includes its financial statements, required supplemental information, actuarial report, and other relevant information, is available from the State of Florida, Division of Retirement in Tallahassee, Florida.

The State of Florida establishes contribution rates for Plan members. The following table presents the contribution rates for the employer during the 2002-03 fiscal year:

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Class or Plan	Percent of Gross Salary (A)
Florida Retirement System, Regular	5.76
Florida Retirement System, Senior Management Services	6.06
Florida Retirement System, Special Risk	16.01
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	9.11

Note: (A) Employer rates for each membership class include 1.11 percent for health insurance subsidy and .15 percent for administrative costs of the Public Employee Optional Retirement Program.

The University's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's total contributions made to the Plan (none from employees) for fiscal years ended June 30, 2001, June 30, 2002, and June 30, 2003, totaled \$30,526,712, \$26,522,648, and \$21,097,988, respectively, which were equal to the required contributions for each fiscal year.

State University System Optional Retirement Program. Pursuant to Section 121.35, Florida Statutes, the Florida Legislature created an Optional Retirement Program (Program) for eligible State University System faculty and administrators. The Program, which became effective July 1, 1984, was expanded in 1988 to include the State University System Executive Service. The Program is designed to aid the university system in recruiting employees by offering more portability to those employees who are not expected to remain in the Florida Retirement System for six or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program rather than the Florida Retirement System, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant an amount equal to 10.43 percent of the participant's gross monthly compensation. A small amount remains in the Optional Retirement Program Trust Fund for program administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute by salary deduction an amount not to exceed the percentage contributed by the University to the participant's annuity account.

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There were 4,439 University participants during the 2002-03 fiscal year. Required contributions made to the Program totaled \$26,997,619, including \$13,404,227 from employee contributions, on a covered payroll of \$267,401,572.

Public Employee Optional Retirement Program. Pursuant to Section 121.4501, Florida Statutes, effective June 1, 2002, the Florida Legislature created a Public Employee Optional Retirement Program (PEORP), also known as the Florida Retirement System (FRS) Investment Program. The Program is a defined contribution plan, sponsored by the State of Florida, available as an option to the FRS, and is self-directed by the employee. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. With each biweekly pay period, the University contributes a percentage (same as FRS Rate) of the participating employees' earnings to an annuity plan. Pension benefits are determined by the dollars in the account at the time of retirement.

There were 423 University participants during the 2002-03 fiscal year. Required contributions made to the PEORP totaled \$631,419.

Institute of Food and Agricultural Sciences Supplemental Retirement. In 1984, the Florida Legislature enacted the Institute of Food and Agricultural Sciences Supplemental Retirement Act to provide a supplement to the monthly retirement benefit being paid under the Federal Civil Service Retirement System to retirees of the Institute of Food and Agricultural Sciences (IFAS) at the University of Florida. The supplement is designated for IFAS cooperative extension employees employed before July 1, 1983, who are not entitled to benefits from either a State-supported retirement system or social security based on their service with IFAS. It was intended to compensate these IFAS employees for the difference between their Civil Service benefit and the benefits a FRS member receives, which include a social security benefit. No additional persons can become eligible for this supplement.

Employee contributions were \$516,272 and employer contributions were \$1,079,707. For the 2002-03 fiscal year, the University's covered payroll was \$6,127,103 for 113 employees.

Other Retirement Programs. Other retirement programs include the Florida Teacher's Retirement System and the U.S. Civil Service Retirement System. Seven employees were covered by the Florida Teacher's Retirement System during the 2002-03 fiscal year. Employer contributions were \$56,105, and employee contributions were \$30,895 on a covered payroll of \$509,319. Nineteen employees were covered by the U.S. Civil Service Retirement System during the 2002-03 fiscal year. Employer contributions were \$103,108, and employee contributions were \$95,886 on a covered payroll of \$1,130,795.

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15. POST-EMPLOYMENT BENEFITS

Pursuant to Section 112.363, Florida Statutes, the Florida Legislature established the Retiree Health Insurance Subsidy (HIS) to assist retirees of all State-administered retirement systems in paying health insurance costs. During the 2002-03 fiscal year, the HIS program was funded by required contributions consisting of 1.11 percent assessed against the payroll for all active employees covered in State-administered retirement systems. This assessment is included in the Florida Retirement System contribution rates presented in note 14.

Eligible retirees, spouses, or financial dependents under any State-administered retirement system must provide proof of health insurance coverage, which can include Medicare. During the 2002-03 fiscal year, participants received an extra \$5 per month for each year of creditable service completed at the time of retirement; however, no eligible retiree or beneficiary may receive a subsidy payment of more than \$150 or less than \$30. If contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

16. RISK MANAGEMENT PROGRAMS

State Self-Insurance Fund. In accordance with a program for central insurance purchases adopted by the Florida Cabinet in 1969, the Department of Management Services has authority to purchase insurance on behalf of all State agencies. This authority was granted with the enactment of Section 287.022, Florida Statutes. Other actions by the Legislature have resulted in the development of State self-insurance funds providing hazard insurance for property and casualty insurance for State employees workers' compensation, general liability, and fleet automotive liability. The University participates in these programs. Property losses in excess of \$20 million are commercially insured up to \$200 million per loss event. Payments on tort claims are limited to \$100,000 per person and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculations of premiums consider the cash needs of the program and the amount of risk exposure for each participant. There have been no significant reductions in insurance coverage from the prior year coverage. Settlements have not exceeded insurance coverage during the past three years.

University employees may obtain health care services through participation in the State's group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State's group health insurance plan, including the

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actuarial report, is available from the State of Florida, Department of Management Services, Division of State Group Insurance in Tallahassee, Florida.

University Self-Insurance Programs. The J. Hillis Miller Health Science Center (JHMH) Self-Insurance Program and the University of Florida JHMH/Jacksonville Self-Insurance Program were established pursuant to Section 1002.24, Florida Statutes. The Self-Insurance Programs are used to account for a program of general and professional liability protection for the University of Florida Board of Trustees acting as the six health colleges of the Health Science Center, including the Student Health Service Auxiliary and the Veterinary Medical Teaching Hospital. Hospital professional liability protection, including patient general liability, is provided to Shands Teaching Hospital and Clinics, Inc.; Shands Jacksonville Medical Center, Inc.; Shands community hospitals in Starke, Lake City, and Live Oak; and other statutorily permitted entities, which voluntarily participate in the Self-Insurance Programs. The University of Florida Board of Trustees is protected for losses, which are subject to Section 768.28, Florida Statutes, including legislative claims bills, which in combination with the waiver of immunity limits described in Section 768.28, Florida Statutes, do not exceed \$1 million per claim. The Self-Insurance Programs provide \$2 million per-claim protection for the participants, which are not subject to the provisions of Section 768.28, Florida Statutes. The per-claim limit of liability protection for the participants does not exceed \$2 million per claim in the event more than one protected entity is involved in the same claim or action. The Gainesville Self-Insurance Program retains annual aggregate limits of liability protection of \$14 million and the Jacksonville Self Insurance Program retains annual aggregate limits of liability of \$11 million.

Pursuant to the authority of State Board of Education Rule 6C-10.001(2), Florida Administrative Code, the University of Florida Self-Insurance Program Councils have created the University of Florida Healthcare Education Insurance Company (HEIC), a captive insurance company which is wholly owned by the Florida Board of Governors and which is domiciled in the State of Vermont. HEIC is managed by a Board of Directors created by the Florida Board of Governors. HEIC provides \$52 million per-claim and \$58 million annual aggregate claims coverage on a claims-made basis for losses, which are in excess of the protections afforded by the Self-Insurance Programs. The excess insurance is paid to claimants on a first come-first serve basis.

HEIC retains limits of \$2 million per claim, with an annual aggregate of \$8 million in excess of the protections afforded by the Self-Insurance Programs and fully reinsures the \$50 million coverage in excess thereof.

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Claims settlement and adjustment expenses are accrued as expenses and liabilities of the University of Florida JHMHC Self-Insurance Program, inclusive of the University of Florida JHMHC Self-Insurance Program (Gainesville), the University of Florida JHMHC/Jacksonville Self-Insurance Program, and University of Florida Healthcare Education Insurance Company, for the estimated settlement value of claims reported as a "Liability for Self-Insured Claims." The estimated settlement value of claims was determined on the basis of the judgment and experience of management and the Self-Insurance Program Councils through a case-by-case review. Estimated losses from incurred but unreported incidents are accrued based upon the findings of casualty actuaries.

The amount of "Liability for Self-Insured Claims" accrued for the Self-Insurance Program at June 30, 2003, was \$46,632,807 for compensatory losses and for allocated expenses. The "Liability for Self-Insured Claims" was accrued at an undiscounted present value.

The aggregate amount of claims liabilities for which annuity contracts have been purchased in the claimants' names and for which the related liabilities have been removed from the statement of net assets totals \$1,575,000 for the Self-Insurance Program at June 30, 2003. These annuities have been assigned to third parties, and all claimants have fully and completely released trust fund participants from all actual and contingent liability.

Changes in the balances of claims liabilities for the Self-Insurance Program during the fiscal years ended June 30, 2002, and June 30, 2003, are presented in the following table:

<u>Fiscal Year</u>	<u>Claims Liabilities Beginning of Year</u>	<u>Current Claims/ Changes in Estimates</u>	<u>Claims Payments</u>	<u>Claims Liabilities End of Year</u>
2001-02	\$ 32,426,799	\$ 12,066,711	\$ (6,010,882)	\$ 38,482,628
2002-03	38,482,628	18,666,592	(10,516,413)	46,632,807

17. CONTINGENT LIABILITIES

The University is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the University's attorney and management, should not materially affect future operations and the financial condition of the University.

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18. PRIOR PERIOD ADJUSTMENTS – COMPONENT UNITS

Adjustments to beginning net assets were reported only when amounts were considered material in accordance with Accounting Principles Board Opinions Nos. 9 and 20 and FASB Statement No. 16. All other nonmaterial adjustments were reported through current year operations. The following table summarizes the total adjustments to beginning net assets reported in the statement of revenues, expenses, and changes in net assets:

<u>Description</u>	<u>Amount</u>
To Decrease Net Asset Balance for the 2001-02 Fiscal Year Activity of Component Units Due to Change in Fiscal Year Reporting Requirement	\$(82,713,000)

19. COMPONENT UNITS

Summary financial information from the most recent available audited financial statements of direct-support organizations and other component units of the University of Florida, as mentioned in note 1, is presented in the following tables:

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Direct-Support Organizations
(In Thousands)

	University of Florida Foundation, Inc. 6-30-03	University of Florida Research Foundation, Inc. 6-30-03	University of Florida Athletic Association, Inc. 6-30-03	Gator Boosters, Inc. 6-30-03	University of Florida Law Center Association, Inc. 6-30-03
CONDENSED STATEMENT OF NET ASSETS					
Assets:					
Due from Primary Government/Component Units	\$	\$ 42,591	\$ 4,816	\$ 4,447	\$ 4,192
Other Current Assets	27,821	15,973	41,753	923	52
Capital Assets, Net	26,838		117,644	81	
Other Noncurrent Assets	818,751	76,481	24,452	458	434
Total Assets	873,410	135,045	188,665	5,909	4,678
Liabilities:					
Due to Primary Government/Component Units	49,658	9,004		1,051	
Other Current Liabilities	10,842	30,271	45,194	479	68
Noncurrent Liabilities	31,890		81,710	30	
Total Liabilities	92,390	39,275	126,904	1,560	68
Net Assets:					
Restricted - Endowment	573,938			3,796	2,042
Restricted - Other	188,999		366		2,130
Unrestricted	11,236	95,770	17,326	471	438
Invested in Capital Assets, Net of Related Debt	6,847		44,069	82	
Total Net Assets	\$ 781,020	\$ 95,770	\$ 61,761	\$ 4,349	\$ 4,610
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS					
Operating Revenues	\$ 68,973	\$ 75,115	\$ 39,469	\$ 23,753	\$ 397
Operating Expenses	(116,728)	(78,852)	(59,965)	(2,313)	(835)
Operating Income (Loss)	(47,755)	(3,737)	(20,496)	21,440	(438)
Nonoperating Revenues (Expenses):					
Investment Income (Loss)	6,574	9,181	1,740	939	(715)
Addition to Permanent Endowments	30,975			26	1
Other	(1,054)	397	201		192
Transfers From/(To) Component Units	(1,547)		22,471	(22,379)	
Change in Net Assets	(12,807)	5,841	3,916	26	(960)
Net Assets, Beginning of Year	840,479	123,466	52,044	4,313	2,581
Adjustments to Beginning Net Assets	(46,652)	(33,537)	5,801	10	2,989
Adjusted Net Assets, Beginning of Year	793,827	89,929	57,845	4,323	5,570
Net Assets, End of Year	\$ 781,020	\$ 95,770	\$ 61,761	\$ 4,349	\$ 4,610

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003

Direct-Support Organizations (Continued)
(In Thousands)

	Florida Foundation Seed Producers, Inc. (Unaudited) 6-30-03	Florida 4-H Club Foundation, Inc. 3-31-03	Florida Association of Basic Medical Scientists, Inc. 6-30-03	Southwest Florida Research and Education Foundation, Inc. 6-30-03	Citrus Research and Education Foundation, Inc. 6-30-03
CONDENSED STATEMENT OF NET ASSETS					
Assets:					
Due from Primary Government/Component Units	\$	\$ 1,914	\$	\$	\$
Other Current Assets	2,345	1,040	21	38	163
Capital Assets, Net	1,092			131	12
Other Noncurrent Assets		161			
Total Assets	3,437	3,115	21	169	175
Liabilities:					
Due to Primary Government/Component Units	684				
Other Current Liabilities	58	16			18
Noncurrent Liabilities					
Total Liabilities	742	16			18
Net Assets:					
Restricted - Endowment		1,764			
Restricted - Other		834			
Unrestricted	1,603	501	21	38	145
Invested in Capital Assets, Net of Related Debt	1,092			131	12
Total Net Assets	\$ 2,695	\$ 3,099	\$ 21	\$ 169	\$ 157
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS					
Operating Revenues	\$ 1,313	\$ 1,523	\$	\$ 34	\$ 149
Operating Expenses	(1,281)	(1,406)		(28)	(103)
Operating Income (Loss)	32	117		6	46
Nonoperating Revenues (Expenses):					
Investment Income (Loss)	11	(331)			
Addition to Permanent Endowments		34			
Other		36			
Transfers From/(To) Component Units					
Change in Net Assets	43	(144)		6	46
Net Assets, Beginning of Year	2,454	2,112	21	92	120
Adjustments to Beginning Net Assets	198	1,131		71	(9)
Adjusted Net Assets, Beginning of Year	2,652	3,243	21	163	111
Net Assets, End of Year	\$ 2,695	\$ 3,099	\$ 21	\$ 169	\$ 157

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003

Direct-Support Organizations (Continued)
(In Thousands)

	Florida Leadership and Education Foundation, Inc. 12-31-02	Treasure Coast Agricultural Research Foundation, Inc. 6-30-03	University of Florida Alumni Association, Inc. 6-30-03	Total Direct Support Organizations
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Due from Primary Government/Component Units	\$ 1,614	\$	\$	\$ 59,574
Other Current Assets	607	31		90,767
Capital Assets, Net		4		145,802
Other Noncurrent Assets				920,737
Total Assets	2,221	35		1,216,880
Liabilities:				
Due to Primary Government/Component Units				60,397
Other Current Liabilities	262	1		87,209
Noncurrent Liabilities				113,630
Total Liabilities	262	1		261,236
Net Assets:				
Restricted - Endowment	1,419			582,959
Restricted - Other				192,329
Unrestricted	540	31		128,120
Invested in Capital Assets, Net of Related Debt		3		52,236
Total Net Assets	\$ 1,959	\$ 34	\$	\$ 955,644
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS				
Operating Revenues	\$ 1,469	\$ 32	\$ 1,244	\$ 213,471
Operating Expenses	(1,492)	(28)	(2,822)	(265,853)
Operating Income (Loss)	(23)	4	(1,578)	(52,382)
Nonoperating Revenues (Expenses):				
Investment Income (Loss)	(75)			17,324
Addition to Permanent Endowments	380			31,416
Other				(228)
Transfers From/(To) Component Units			1,578	123
Change in Net Assets	282	4		(3,747)
Net Assets, Beginning of Year	1,644	36		1,029,362
Adjustments to Beginning Net Assets	33	(6)		(69,971)
Adjusted Net Assets, Beginning of Year	1,677	30		959,391
Net Assets, End of Year	\$ 1,959	\$ 34	\$	\$ 955,644

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003

Health Science Center Affiliates
(In Thousands)

	Florida Clinical Practice Association, Inc. 6-30-03	University of Florida Jacksonville Physicians, Inc. 6-30-03	Faculty Associates, Inc. (Unaudited) 6-30-03	Florida Health Professions Association, Inc. 6-30-03
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Due from Primary Government/Component Units	\$ 8,779	\$ 3,005	\$ 756	\$ 621
Other Current Assets	34,229	33,068	3,585	2,746
Capital Assets, Net	5,122	5,719		
Other Noncurrent Assets	32,926	158		
Total Assets	81,056	41,950	4,341	3,367
Liabilities:				
Due to Primary Government/Component Units		4,611		
Other Current Liabilities	19,117	13,485	869	456
Noncurrent Liabilities	14,368	13,205	138	1,313
Total Liabilities	33,485	31,301	1,007	1,769
Net Assets:				
Unrestricted	42,450	4,930	3,334	1,598
Invested in Capital Assets, Net of Related Debt	5,121	5,719		
Total Net Assets	\$ 47,571	\$ 10,649	\$ 3,334	\$ 1,598
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS				
Operating Revenues	\$ 164,717	\$ 131,957	\$ 14,840	\$ 7,480
Operating Expenses	(153,474)	(120,168)	(9,705)	(3,510)
Operating Income (Loss)	11,243	11,789	5,135	3,970
Nonoperating Revenues (Expenses):				
Investment Income (Loss)	2,258	165	34	36
Other	(39,457)	(17,358)	(6,252)	(4,627)
Transfers From/(To) Component Units	24,497	4,914	1,438	116
Change in Net Assets	(1,459)	(490)	355	(505)
Net Assets, Beginning of Year	55,204	11,084	3,405	2,828
Adjustments to Beginning Net Assets	(6,174)	55	(426)	(725)
Adjusted Net Assets, Beginning of Year	49,030	11,139	2,979	2,103
Net Assets, End of Year	\$ 47,571	\$ 10,649	\$ 3,334	\$ 1,598

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003

Health Science Center Affiliates (Continued)
(In Thousands)

	College of Nursing Faculty Practice Association, Inc. 6-30-03	College of Pharmacy Faculty Practice Association, Inc. 6-30-03	Florida Veterinary Medicine Faculty Association, Inc. (Unaudited) 6-30-03	University of Florida Health Services, Inc. 6-30-03
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Due from Primary Government/Component Units	\$ 179	\$ 895	\$ 20	\$
Other Current Assets	2,820	133	2,779	3
Capital Assets, Net				
Other Noncurrent Assets				
Total Assets	<u>2,999</u>	<u>1,028</u>	<u>2,799</u>	<u>3</u>
Liabilities:				
Due to Primary Government/Component Units				
Other Current Liabilities	31	3	508	9
Noncurrent Liabilities				
Total Liabilities	<u>31</u>	<u>3</u>	<u>508</u>	<u>9</u>
Net Assets:				
Unrestricted	2,968	1,025	2,291	(6)
Invested in Capital Assets, Net of Related Debt				
Total Net Assets	<u>\$ 2,968</u>	<u>\$ 1,025</u>	<u>\$ 2,291</u>	<u>\$ (6)</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS				
Operating Revenues	\$ 756	\$	\$ 7,112	\$
Operating Expenses	(287)	(733)	(764)	(2)
Operating Income (Loss)	469	(733)	6,348	(2)
Nonoperating Revenues (Expenses):				
Investment Income (Loss)	39	52	53	
Other	(362)		(6,972)	
Transfers From/(To) Component Units	9	470		15
Change in Net Assets	<u>155</u>	<u>(211)</u>	<u>(571)</u>	<u>13</u>
Net Assets, Beginning of Year	2,412	905	2,922	(9)
Adjustments to Beginning Net Assets	401	331	(60)	(10)
Adjusted Net Assets, Beginning of Year	<u>2,813</u>	<u>1,236</u>	<u>2,862</u>	<u>(19)</u>
Net Assets, End of Year	<u>\$ 2,968</u>	<u>\$ 1,025</u>	<u>\$ 2,291</u>	<u>\$ (6)</u>

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003

Health Science Center Affiliates (Continued)
(In Thousands)

	University of Florida Jacksonville Healthcare, Inc. 6-30-03	Faculty Clinic, Inc. 6-30-03	Jacksonville Health Education Programs, Inc. (Unaudited) 9-30-02	Total Health Science Center Affiliates
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Due from Primary Government/Component Units	\$ 293	\$ 26	\$	\$ 14,574
Other Current Assets	257	3,190	347	83,157
Capital Assets, Net	2,583	5,225		18,649
Other Noncurrent Assets		139		33,223
Total Assets	3,133	8,580	347	149,603
Liabilities:				
Due to Primary Government/Component Units	1,794	4		6,409
Other Current Liabilities	970	149	1	35,598
Noncurrent Liabilities		6,900		35,924
Total Liabilities	2,764	7,053	1	77,931
Net Assets:				
Unrestricted	(2,214)	3,202	346	59,924
Invested in Capital Assets, Net of Related Debt	2,583	(1,675)		11,748
Total Net Assets	\$ 369	\$ 1,527	\$ 346	\$ 71,672
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS				
Operating Revenues	\$ 349	\$ 418	\$ 105	\$ 327,734
Operating Expenses	(11,808)	(1,265)	(53)	(301,769)
Operating Income (Loss)	(11,459)	(847)	52	25,965
Nonoperating Revenues (Expenses):				
Investment Income (Loss)		33	5	2,675
Other	(3)	(192)		(75,223)
Transfers From/(To) Component Units	11,462	1,105		44,026
Change in Net Assets		99	57	(2,557)
Net Assets, Beginning of Year	369	1,410	289	80,819
Adjustments to Beginning Net Assets		18		(6,590)
Adjusted Net Assets, Beginning of Year	369	1,428	289	74,229
Net Assets, End of Year	\$ 369	\$ 1,527	\$ 346	\$ 71,672

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003

Shands Teaching Hospital and Others
(In Thousands)

	Shands Teaching Hospital and Clinics, Inc. 6-30-03	Baby Gator Child Care Center, Inc. 6-30-03	University Village Apartments, Inc. 6-30-03	Total Shands Teaching Hospital and Others
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Due from Primary Government/Component Units	\$ 2,920	\$ 253	\$ 111	\$ 3,284
Other Current Assets	398,563	175	171	398,909
Capital Assets, Net	564,439	34	1,093	565,566
Other Noncurrent Assets	251,084		531	251,615
Total Assets	1,217,006	462	1,906	1,219,374
Liabilities:				
Due to Primary Government/Component Units	2,655		55	2,710
Other Current Liabilities	174,055	71	189	174,315
Noncurrent Liabilities	537,329		955	538,284
Total Liabilities	714,039	71	1,199	715,309
Net Assets:				
Restricted - Endowments	1,113			1,113
Restricted - Other	30,325			30,325
Unrestricted	353,668	357	669	354,694
Invested in Capital Assets, Net of Related Debt	117,861	34	38	117,933
Total Net Assets	\$ 502,967	\$ 391	\$ 707	\$ 504,065
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS				
Operating Revenues	\$ 1,278,073	\$ 970	\$ 1,059	\$ 1,280,102
Operating Expenses	(1,114,973)	(932)	(1,011)	(1,116,916)
Operating Income	163,100	38	48	163,186
Nonoperating Revenues (Expenses):				
Investment Income (Loss)	(4,330)	9	4	(4,317)
Addition to Permanent Endowments	1,013			1,013
Other	22,065		(33)	22,032
Transfers From/(To) Component Units	(45,627)			(45,627)
Change in Net Assets	136,221	47	19	136,287
Net Assets, Beginning of Year	372,763	303	864	373,930
Adjustments to Beginning Net Assets	(6,017)	41	(176)	(6,152)
Adjusted Net Assets, Beginning of Year	366,746	344	688	367,778
Net Assets, End of Year	\$ 502,967	\$ 391	\$ 707	\$ 504,065

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003

20. SEGMENT INFORMATION

A segment is an identifiable activity (or grouping of activities), that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required to be accounted for separately. The following financial information represents identifiable activities of the University for which one or more bonds or other debt instruments are outstanding. Transportation and Parking Services provides the University with safe and adequate parking facilities. Several parking garages have been constructed from the proceeds of revenue-backed debt instruments. The Division of Housing provides safe, affordable living space for students of the University of Florida. Several revenue bonds have been issued over the years to provide funding for the construction of facilities to house students of the University. A summary of the activity for these segments is presented in the following table:

Condensed Statement of Net Assets

	Transportation and Parking Services	Division of Housing
Assets		
Current Assets	\$ 8,999,411	\$ 13,678,086
Capital Assets, Net	35,944,121	63,219,102
Other Noncurrent Assets	258,914	8,672,258
Total Assets	<u>45,202,446</u>	<u>85,569,446</u>
Liabilities		
Current Liabilities	6,047,397	5,794,137
Noncurrent Liabilities	24,058,881	66,582,791
Total Liabilities	<u>30,106,278</u>	<u>72,376,928</u>
Net Assets		
Restricted	3,212,982	7,194,325
Unrestricted	1,706,873	5,061,062
Invested in Capital Assets, Net of Related Debt	10,176,313	937,131
Total Net Assets	<u>\$ 15,096,168</u>	<u>\$ 13,192,518</u>

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	Transportation and Parking Services	Division of Housing
Operating Revenues (Expenses):		
Operating Revenues	\$ 11,509,701	\$ 30,936,118
Depreciation Expense	(1,842,825)	(1,831,027)
Other Operating Expenses	(7,019,709)	(24,142,035)
Net Operating Income	<u>2,647,167</u>	<u>4,963,056</u>
Nonoperating Revenues (Expenses):		
Investment Income	261,095	1,381,778
Interest Expense	(1,227,120)	(3,620,022)
Other	(531,110)	150,079
Capital Related Expenses		(1,501,833)
Transfers	1,120,203	930,488
Net Nonoperating Expenses	<u>(376,932)</u>	<u>(2,659,510)</u>
Change in Net Assets	2,270,235	2,303,546
Net Assets, Beginning of Year	<u>12,825,933</u>	<u>10,888,972</u>
Net Assets, End of Year	<u><u>\$ 15,096,168</u></u>	<u><u>\$ 13,192,518</u></u>

Condensed Statement of Cash Flows

	Transportation and Parking Services	Division of Housing
Net Cash Provided (Used) by:		
Operating Activities	\$ 4,536,851	\$ 8,194,796
Noncapital Financing Activities	(216,943)	649,916
Capital and Related Financing Activities	(3,687,654)	(14,422,205)
Investing Activities	(783,147)	7,811,968
Net Increase (Decrease) in Cash and Cash Equivalents	(150,893)	2,234,475
Cash and Cash Equivalents, Beginning of Year	<u>304,197</u>	<u>9,676,417</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 153,304</u></u>	<u><u>\$ 11,910,892</u></u>

University of Florida Board of Trustees

A Financial Statement Audit Report
For the Fiscal Year Ended June 30, 2002



WILLIAM O. MONROE, CPA

During the audit period, the President of the University was Dr. Charles E. Young. The Board members who served during the audit period are listed below:

Board Members

Marshall Criser, Jr., Chair
Dianna Morgan, Vice-Chair
Carlos Alfonso
Louise Courtelis
Roland Daniels
John Dasburg
Manny Fernandez
Mac McGriff
Joelen Merkel
Cynthia O'Connell
Albert Thweatt
Alfred Warrington, IV
Nicole Fried from 6-14-02 (1)
Marc Adler to 6-13-02 (1)

Note: (1) The student body president, who is
a voting member of the Board in
accordance with Section 229.003(4),
Florida Statutes.

AUDITOR GENERAL

The Auditor General provides independent, unbiased, timely, and relevant information to the Legislature, entity management, and the citizens of the State of Florida which can be used to improve the operations and accountability of public entities.

UNIVERSITY OF FLORIDA
BOARD OF TRUSTEES

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EXECUTIVE SUMMARY

The audit of the financial statements of the Board of Trustees of the University of Florida for the fiscal year ended June 30, 2002, was conducted pursuant to the provisions of Section 11.45, Florida Statutes.

The scope of this audit included an examination of the financial statements of the University, a component unit of the State of Florida, and a determination as to whether management has complied with applicable laws, administrative rules, regulations, contracts, and grants that are material to the financial statements. An examination of Federal awards administered by the University is included in our Statewide audit of Federal awards administered by the State of Florida.

The following provides a summary of the findings of our audit of the financial statements of the University:

- We found that the University's financial statements presented fairly, in all material respects, the financial position of the University and of its discretely presented component units as of June 30, 2002; the revenues, expenses, and changes in net assets; and the cash flows for the fiscal year then ended.
- The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
- We noted no matters involving the University's internal control over financial reporting and its operation that we considered to be material weaknesses.

This audit was conducted by Brian D. Mikell, CPA, and supervised by Philip B. Ciano, CPA. Please address inquiries regarding this report to James E. Raulerson, CPA, Audit Manager, via e-mail at jimraulerson@aud.state.fl.us or by telephone at (850) 487-4468. This report, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site (<http://www.state.fl.us/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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850/488-5534/SC 278-5534
Fax: 488-6975/SC 278-6975

The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2002, as shown on pages 14 through 54. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, as described in note 1 to the financial statements, which comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for these entities, is based solely upon the reports of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.


In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Florida and of its aggregate discretely presented component units as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note 1 to the financial statements, the University adopted Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis - for Public Colleges and Universities*, and related pronouncements as of and for the fiscal year ended June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the University of Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts, and grants included under the heading **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 5 through 13 is not a required part of the financial statements, but is supplementary information required by the accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Respectfully submitted,


William O. Monroe, CPA
January 31, 2003



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the University of Florida, a component unit of the State of Florida, as of and for the fiscal year ended June 30, 2002, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. 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. Our report on the financial statements included disclosures regarding our reference to the reports of other auditors.

Compliance

As part of obtaining reasonable assurance about whether the University of Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

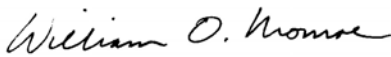
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University of Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the University of Florida's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all

matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,


William O. Monroe, CPA
January 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS
From the Vice President for Finance and Administration

INTRODUCTION AND BACKGROUND

The following management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University of Florida (the University) for the fiscal year ended June 30, 2002, and should be read in conjunction with the financial statements and notes thereto. The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. During the 2001-02 fiscal year, the University adopted GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. These statements establish standards for the preparation of public college and university financial statements that focus on aggregate operations, versus the previous standards that focused on accountability of individual fund groups. As a result, these financial statements are not comparable to the 2000-01 fiscal year financial statements. Because the University has determined it is not practical to restate the prior year financial statements, only certain significant changes and amounts are described in this analysis. In future years, the University will present year-to-year comparative data and analyses.

FINANCIAL HIGHLIGHTS

During the 2001-02 fiscal year, the University collected \$180.7 million in student tuition and fees (this is gross of the scholarship allowance of \$47.7 million – see below). This is a 12 percent increase from the prior year. The increase was due in part to an average 8 percent increase in the tuition and fee rates for all students (graduate, undergraduate, resident and non-resident). In addition, the University experienced a 7.5 percent increase in non-resident enrollments. The University reported a 40 percent increase in revenues and transfers from its component units. However, the University also experienced a decline in State appropriations for current operations of 8 percent.

As noted previously, these financial statements present the University's financial position and activities in accordance with GASB Statement No. 35, as amended. This statement established a new governmental reporting model. This model required the University to make several substantial changes in the methods used to report activity in a number of accounts. The most significant of these changes was the recording of \$896.8 million in accumulated depreciation on the University's capital assets, including \$76.3 million this fiscal year. Other changes required were as follows:

1. Reduce Federal contracts and grants revenues and scholarship and fellowship expenses by \$119.2 million for moneys received and disbursed associated with the Federal Direct Loan Program, which is now accounted for in an agency fund.
2. Reduce student tuition and fee revenue and scholarship and fellowship expenses by \$47.7 million for the scholarship allowance which represents student aid funded by restricted gifts, State appropriations, and student financial aid fees.
3. Capital appropriations revenues for Public Education and Capital Outlay (PECO) appropriations were reduced by \$15.4 million and recorded as deferred revenues.
4. \$17.7 million for grant receipts that had not fulfilled the requirements for revenue accrual at June 30, 2002, also increased deferred revenues.

5. Finally, the contracts and grants revenues have been increased by \$188.2 million for amounts received from component units that in prior years were accounted for as transfers.

The University completed construction of several capital projects including two Institute of Food and Agricultural Sciences (IFAS) Research facilities, the North Florida facility in Quincy and the Central Florida facility in Apopka, and the renovation of Frazier Rogers Hall, the IFAS agricultural and bioengineering facility on campus. In our continuing efforts to provide our students, faculty, and staff with the most modern and efficient facilities, the University started several new projects including a new Orthopedic Surgery and Sport Medicine Institute (project cost of \$23 million); a new Bookstore, Visitor Welcome Center, and parking garage located at the J. Wayne Reitz Union (project cost of \$18.2 million); an addition to the Constans Theater (project cost of \$7.5 million); and an addition to the Florida Museum of Natural History for a Lepidoptera facility (project cost of \$8.4 million) including a butterfly and moth vivarium. Additional information about the University's capital commitments is presented in note 14 to the financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

The GASB Statement No. 35 requires the University's financial report to include three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The financial statements encompass the University and its discretely presented component units. These component units include:

- The University's "direct support organizations" – These are separate, not-for-profit corporations organized and operated exclusively to assist the University in achieving excellence by providing supplemental resources from private gifts, bequests and valuable education support services.
- The Health Science Center Affiliates – These are the several corporations closely affiliated with the University of Florida J. Hillis Miller Health Science Center including the Faculty Practice Plans.
- Shands Hospital and Others – Includes the Shands Teaching Hospital and Clinics, Inc., a not-for-profit corporation that is contractually obligated to manage, operate, maintain, and insure the hospital facilities in support of the programs of the Health Science Center at the University of Florida.

Information regarding these component units, including summaries of their separately issued financial statements, is presented in note 21 to the financial statements. This MD&A focuses on the University, excluding the discretely presented component units. MD&A for these component units is included in their separately issued financial statements, which are available at the University Controller's Office.

The financial statements characterize revenues and expenses as either operating or nonoperating. Prior reporting standards did not provide for a measure of entity-wide operations but instead focused on the accountability of individual fund groups. A significant portion of the University's anticipated, recurring resources are considered nonoperating as defined by GASB Statement No. 35. The principal components of nonoperating revenues and their related amounts for the 2001-02 fiscal year are: State appropriations for operations - \$505 million; and net investment income - \$19.6 million. Recurring nonoperating expenses primarily consist of interest expense totaling \$7 million on bonds payable for the 2001-02 fiscal year.

The Statement of Net Assets

The statement of net assets reflects the assets and liabilities of the University using the accrual basis of accounting and presents the financial position of the University at a specified time. The difference between total assets and total liabilities is net assets, which is one indicator of the current financial condition of the University. The changes in the net assets that occur over time indicate improvements or deterioration in the University's financial condition.

The following summarizes the University's assets and liabilities at June 30, 2002:

Condensed Statement of Net Assets (In Millions)	
	<u>Amount</u>
Assets	
Current Assets	\$ 617.6
Capital Assets, Net	919.1
Other Noncurrent Assets	<u>126.4</u>
Total Assets	<u>1,663.1</u>
Liabilities	
Current Liabilities	120.4
Noncurrent Liabilities	<u>264.2</u>
Total Liabilities	<u>384.6</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	790.2
Restricted	296.7
Unrestricted	<u>191.6</u>
Total Net Assets	<u><u>\$ 1,278.5</u></u>

The Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the results of the University's revenue and expense activity categorized as operating or nonoperating. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The following summarizes the University's 2001-02 fiscal year activity:

Condensed Statement of Revenues, Expenses, and Changes in Net Assets (In Millions)	
	Amount
Operating Revenues	\$ 756.2
Operating Expenses	<u>(1,273.2)</u>
Operating Loss	(517.0)
Nonoperating Revenues	<u>526.2</u>
Income Before Other Revenues, Expenses, Gains, or Losses	9.2
Other Revenues, Expenses, Gains, or Losses	<u>84.1</u>
Increase in Net Assets	93.3
Restated Net Assets, Beginning of Year	<u>1,185.2</u>
Net Assets, End of Year	<u><u>\$ 1,278.5</u></u>

Operating Revenues

The University's revenues are generated from various sources to supplement the student tuition and fees. GASB Statement No. 35 categorizes revenues into operating and nonoperating. Operating revenues generally result from exchange transactions in which each of the parties to the transaction either give up or receive something of equal or similar value. The following summarizes the operating revenues by source which were used to fund the University's operating activities for the 2001-02 fiscal year:

Operating Revenues (In Millions)	
	Amount
Tuition and Fees, Net of Scholarship Allowances	\$ 133.0
Grants and Contracts	490.2
Sales and Services of Auxiliary Operations	72.7
Sales and Services of Educational Departments	56.8
Other	<u>3.5</u>
Total Operating Revenues	<u><u>\$ 756.2</u></u>

Operating Expenses

The majority of the University's expenses are exchange transactions which GASB Statement No. 35 defines as operating expenses. GASB gives financial reporting entities the choice of reporting expenses in the functional or natural classifications. The University has chosen to report the expenses in their natural classification on the face of the statement and has displayed the functional classification in the notes to the financial statements. The following summarizes the operating expenses for each method of classification for the 2001-02 fiscal year:

Operating Expenses (In Millions)			
<u>Natural Classification</u>	<u>Amount</u>	<u>Functional Classification</u>	<u>Amount</u>
Personnel Services	\$ 863.4	Instruction	\$ 415.9
Contractual Services	76.5	Research	333.4
Utilities and Communications	43.4	Public Service	105.7
Materials and Supplies	67.3	Academic Support	84.3
Repairs and Maintenance	23.6	Auxiliary Operations	78.6
Scholarship and Waivers	45.3	Depreciation	76.3
Depreciation	76.3	Institutional Support	73.0
Self-Insured Claims and Expenses	14.0	Operation and Maintenance of Plant	66.7
Other	63.4	Student Services	27.8
		Scholarships and Fellowships	11.0
		Other	0.5
Total Operating Expenses	<u>\$ 1,273.2</u>	Total Operating Expenses	<u>\$ 1,273.2</u>

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State appropriations, gifts, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2001-02 fiscal year:

Nonoperating Revenues and (Expenses) (In Millions)	
	<u>Amount</u>
State Appropriations	\$ 505.4
Investment Income	19.6
Other Nonoperating Revenue	10.2
Interest on Capital Asset-Related Debt	(7.4)
Other Nonoperating Expenses	(1.6)
Total Net Nonoperating Revenues	<u>\$ 526.2</u>

Other Revenues, Expenses, Gains, or Losses

This category is composed primarily of capital appropriations, grants and gifts, and net transfers to/from the primary government or component units. The following summarizes the University's other revenues, expenses, gains, or losses for the 2001-02 fiscal year:

Other Revenues, Expenses, Gains, or Losses (In Millions)	
	<u>Amount</u>
Capital Appropriations	\$ 39.1
Capital Grants, Contracts, and Donations	40.7
Transfers To/From Component Units	<u>4.3</u>
Total Other Revenues	<u><u>\$ 84.1</u></u>

The Statement of Cash Flows

The statement of cash flows provides information about the University's sources and uses of cash during the fiscal year. This statement classifies sources and uses of cash for the 2001-02 fiscal year into the four categories defined by the GASB as presented below:

Summary of Cash Flows (In Millions)	
<u>Cash Flows From</u>	<u>Amount</u>
Operating Activities:	
Total Provided	\$ 754.2
Total Used	<u>(1,196.6)</u>
Net Cash Used by Operating Activities	<u>(442.4)</u>
Noncapital Financing Activities:	
State Appropriations	505.4
Operating Subsidies and Transfers	5.4
Other	<u>0.7</u>
Net Cash Provided by Noncapital Financing Activities	<u>511.5</u>
Capital and Related Financing Activities:	
Capital Appropriations, Subsidies, Transfers, Grants and Gifts	95.8
Other Receipts and Proceeds	4.5
Purchases of Capital Assets	(138.4)
Principal and Interest Paid on Capital Debt and Leases	<u>(13.1)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(51.2)</u>
Investing Activities:	
Net Cash Provided by Investing Activities	<u>4.2</u>
Net Increase in Cash and Cash Equivalents	22.1
Cash and Cash Equivalents, Beginning of Year	<u>90.6</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 112.7</u></u>

CAPITAL ASSETS, EXPENSES, COMMITMENTS, AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2002, the University had approximately \$919 million invested in capital assets, net of accumulated depreciation of \$897 million. Depreciation charges for the current year totaled \$76.3 million. The following table summarizes the University's capital assets, net of accumulated depreciation at June 30, 2002:

Capital Assets, Net (In Millions)	
<u>Asset</u>	<u>Amount</u>
Land	\$ 10.2
Infrastructure and Other Improvements	26.3
Buildings	511.6
Furniture and Equipment	207.5
Library Resources	60.2
Property Under Capital Lease and Lease Improvements	9.8
Other Capital Assets	3.3
Construction in Progress	90.2
Total Capital Assets	\$ 919.1

Additional information about the University's capital assets is presented in note 8 to the financial statements.

Capital Expenses and Commitments

Major capital expenses during the fiscal year ended June 30, 2002, included the new Hume Hall honors residency complex (\$17.4 million), the Health Professions, Nursing, and Pharmacy Complex (\$15.7 million) and the expansion of the Reitz Union (student union) (\$5 million). The following table summarizes the University's major capital commitments with remaining balances over \$5 million as of June 30, 2002:

Capital Expense Commitments (Remaining Balance Over \$5 Million) (In Millions)			
Project Name	Current Commitment	Expenses	Commitment Balance
Orthopedics Surgery and Sports Medicine Institute	\$ 23.0	\$	\$ 23.0
Health Professions, Nursing, and Pharmacy Complex	29.1	15.7	13.4
UMC-Shands Jacksonville Proton Beam Facility	11.0	1.2	9.8
2001-02 Maintenance, Repair, Renovation, and Remodeling	9.5	1.2	8.3
Lepidoptera Facility	8.4	0.5	7.9
Utility Infrastructure Improvements	11.2	3.3	7.9
Constans Theatre Addition	7.5	0.3	7.2
PK Yonge Laboratory School Structural Emergency Phase I	8.0	1.1	6.9
New Bookstore with Attached Parking and Visitor/Welcome Center	8.3	1.5	6.8
New Hume Hall	24.0	17.4	6.6
2001-02 Critical Deferred Maintenance	6.6	0.3	6.3
Weil Hall Renovation	8.4	2.3	6.1
M. E. Rinker, Sr., Hall School of Building Construction	8.0	2.6	5.4
Genetic and Cancer Research Center	5.2		5.2
Projects with Remaining Balances Less than \$5 Million	64.3	37.4	26.9
Total	\$ 232.5	\$ 84.8	\$ 147.7

Additional information about the University's capital commitments is presented in note 14 to the financial statements.

Debt

As of June 30, 2002, the University had approximately \$133.4 million in outstanding bonds, notes, and capital leases, representing a decrease of \$4.3 million (3.1 percent) from the prior fiscal year. The University issued Series 2001 Academic and Student Services Facilities Bonds for approximately \$4.3 million during the fiscal year. The following table summarizes outstanding long-term debt by type as of June 30, 2002:

Long-Term Debt (In Millions)	
Debt	Amount
Bonds and Revenue Certificates	\$ 129.2
Installment Purchases	0.2
Capital Leases	4.0
Total Long-Term Debt	\$ 133.4

Additional information about the University's long-term liabilities is presented in note 10 to the financial statements.

ECONOMIC OUTLOOK

Over the past two years certain powers and duties formerly resting with the Florida Board of Regents or the Florida Board of Education have been transferred by law to the University of Florida Board of Trustees (UFBOT). Most operational authorities now rest with the UFBOT. A constitutional amendment effective January 7, 2003,

created a Board of Governors to oversee State universities and may result in further modifications of the authorities of the UFBOT. However, it is not anticipated that any such changes will have a significant economic effect on the University of Florida.

According to a joint study, "The Fiscal Survey of States" by the National Governors Association and the National Association of State Budget Officers, spending pressures and shrinking revenues at the state level, coupled with a weakened national economy, are creating difficult budget choices for many, if not most, states. The study indicated that the status of the economy may impact institutions of higher education in the form of tighter budgets and higher tuition for students.

Against this backdrop of uncertainty, there are a few certainties about the University's financial position. Tuition and fee rates for the 2002-03 fiscal year have increased for resident undergraduates by 6 percent and graduates by 10 percent, and for nonresident students by 17 percent. Overall enrollment for Fall 2002 is up from last fall by 2.8 percent with graduate and professional enrollment up by 4.5 percent and 5.8 percent, respectively, and nonresident enrollment up by 5.7 percent.

State appropriations as initially budgeted by the University are down in the 2002-03 fiscal year by \$11.3 million, or 2.1 percent, from the prior fiscal year initial budget. Research is one of the primary components of the University's mission. The growth in externally sponsored research is evidence of the public and private sectors' confidence in the University's research activities. These sponsored project revenues are budgeted to increase approximately 16 percent over the prior fiscal year budget.

As a labor-intensive organization, the University faces continuing competitive pressures related to attracting and retaining faculty and staff. The University continues to explore ways to operate more efficiently as the new governance structure provides new financial autonomy. In addition, devolving from the State allows for increased opportunity to establish more flexible systems, controls, and fiscal policies that will in turn allow the University of Florida to quickly adjust to changes impacting its fiscal operations.

FINANCIAL STATEMENTS

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2002
(In Thousands)

	University	Component Units			Total Reporting Entity
		Direct Support Organizations	Health Science Center Affiliates	Shands Hospital and Others	
ASSETS					
Current Assets:					
Cash	\$ 26,179	\$ 61,749	\$ 20,710	\$ 28,666	\$ 137,304
Unexpended General Revenue Releases	67,805				67,805
Investments	334,984	121,187	2,044	43,023	501,238
Accounts Receivable, Net	78,769	36,662	55,071	108,725	279,227
Due from Primary Government/Component Units	99,591	61,893	13,269	2,249	177,002
Loans and Notes Receivable, Net	5,950	1,149			7,099
Inventories	3,870	877			4,747
Other Current Assets	415	3,284	1,396	17,173	22,268
Total Current Assets	617,563	286,801	92,490	199,836	1,196,690
Noncurrent Assets:					
Restricted Cash	16,797		1,860		18,657
Unexpended General Revenue Releases-Restricted	1,927				1,927
Restricted Investments	78,993	855,070	11,881	167,298	1,113,242
Loans and Notes Receivable, Net	27,714	7,089			34,803
Depreciable Capital Assets, Net	818,257	59,644	18,375	366,682	1,262,958
Nondepreciable Capital Assets	100,804	29,104	536	22,352	152,796
Other Noncurrent Assets	1,013	1,886	22,460	58,046	83,405
Total Noncurrent Assets	1,045,505	952,793	55,112	614,378	2,667,788
TOTAL ASSETS	\$ 1,663,068	\$ 1,239,594	\$ 147,602	\$ 814,214	\$ 3,864,478
LIABILITIES					
Current Liabilities:					
Accounts Payable	\$ 26,225	\$ 15,808	\$ 8,855	\$ 92,290	\$ 143,178
Accrued Salaries and Wages Payable	18,946	317	14,635	21	33,919
Due to Primary Government/Component Units	12,192	61,803	2,479	5,038	81,512
Deferred Revenue	38,516	64,142	45	34	102,737
Deposits Held in Custody	6,010	145	10	38	6,203
Long-Term Liabilities - Current Portion:					
Bonds and Revenue Certificates Payable	5,763	800	661	8,399	15,623
Installment Purchase Agreements Payable	149			1,474	1,623
Capital Leases Payable	65		249		314
Compensated Absences Payable	5,635	1,045	900		7,580
Liability for Self-Insured Claims	6,884				6,884
Other Liabilities		7,010	5,115	77	12,202
Total Current Liabilities	120,385	151,070	32,949	107,371	411,775
Noncurrent Liabilities:					
Bonds and Revenue Certificates Payable	129,204	26,900	15,016	262,220	433,340
Installment Purchase Agreements Payable	209			2,618	2,827
Capital Leases Payable	4,004		666	6,471	11,141
Compensated Absences Payable	99,173	115	10,901		110,189
Liability for Self-Insured Claims	31,599				31,599
Other Noncurrent Liabilities		32,147	7,251	61,604	101,002
Total Noncurrent Liabilities	264,189	59,162	33,834	332,913	690,098
TOTAL LIABILITIES	384,574	210,232	66,783	440,284	1,101,873

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2002
(In Thousands)

	University	Component Units			Total Reporting Entity
		Direct Support Organizations	Health Science Center Affiliates	Shands Hospital and Others	
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	\$ 790,217	\$ 41,975	\$ 11,219	\$ 106,665	\$ 950,076
Restricted:					
Nonexpendable:					
Endowment		527,394			527,394
Expendable:					
Loans	46,872				46,872
Capital Projects	123,317	62,854			186,171
Debt Service	3,562				3,562
Other Restricted Net Assets	122,937	314,291		1,275	438,503
Unrestricted	191,589	82,848	69,600	265,990	610,027
Total Net Assets	1,278,494	1,029,362	80,819	373,930	2,762,605
TOTAL LIABILITIES AND NET ASSETS	\$ 1,663,068	\$ 1,239,594	\$ 147,602	\$ 814,214	\$ 3,864,478

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2002
(In Thousands)

	University	Component Units			Total Reporting Entity
		Direct Support Organizations	Health Science Center Affiliates	Shands Hospital and Others	
REVENUES					
Operating Revenues:					
Student Tuition and Fees, Net of Scholarship Allowances of \$47,711	\$ 133,023	\$	\$	\$	\$ 133,023
Federal Grants and Contracts	219,202				219,202
State and Local Grants and Contracts	45,824				45,824
Nongovernmental Grants and Contracts	225,191				225,191
Sales and Services of Auxiliary Operations	72,687				72,687
Sales and Services of Educational Departments	56,761				56,761
Sales and Services of Component Units		33,136			33,136
Hospital Revenues		3,731	288,340	648,687	940,758
Gifts and Donations - Component Units		152,057	18,610	1,403	172,070
Royalties and Licensing Fees - Component Units		28,417	224	879	29,520
Interest on Loans and Notes Receivable	973				973
Other Operating Revenues	2,510	2,706	12,962	23,283	41,461
Total Operating Revenues	756,171	220,047	320,136	674,252	1,970,606
EXPENSES					
Operating Expenses:					
Personnel Services	863,430				863,430
Contractual Services	76,520				76,520
Utilities and Communications	43,374				43,374
Materials and Supplies	67,275				67,275
Repairs and Maintenance	23,554				23,554
Scholarships and Waivers	45,345				45,345
Depreciation	76,348				76,348
Self-Insured Claims and Expenses	13,949				13,949
Loan Cancellation and Receivable Write-offs	245				245
Other Operating Expenses	63,182	195,165	332,087	661,689	1,252,123
Total Operating Expenses	1,273,222	195,165	332,087	661,689	2,462,163
Operating Income (Loss)	(517,051)	24,882	(11,951)	12,563	(491,557)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	505,391				505,391
Investment Income (Loss)	19,603	(44,199)	2,929	14,576	(7,091)
Interest on Capital Asset-Related Debt	(7,354)				(7,354)
Other Nonoperating Revenues (Expenses)	8,539		(583)	(11,920)	(3,964)
Net Nonoperating Revenues (Expenses)	526,179	(44,199)	2,346	2,656	486,982
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	9,128	(19,317)	(9,605)	15,219	(4,575)

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (Continued)
For the Fiscal Year Ended June 30, 2002
(In Thousands)

	University	Component Units			Total Reporting Entity
		Direct Support Organizations	Health Science Center Affiliates	Shands Hospital and Others	
Capital Appropriations	\$ 39,131	\$	\$	\$	\$ 39,131
Capital Grants, Contracts, and Donations	40,715				40,715
Addition to Permanent Endowments		45,790		100	45,890
Transfers To/From Component Units or Primary Government	4,316	(3,090)	18,717		19,943
Total Other Revenues, Expenses, Gains, or Losses	84,162	42,700	18,717	100	145,679
Increase in Net Assets	93,290	23,383	9,112	15,319	141,104
Net Assets, Beginning of Year	1,185,204	1,034,579	71,707	357,738	2,649,228
Adjustment to Beginning Net Assets		(28,600)		873	(27,727)
Adjusted Net Assets, Beginning of Year	1,185,204	1,005,979	71,707	358,611	2,621,501
Net Assets, End of Year	\$ 1,278,494	\$ 1,029,362	\$ 80,819	\$ 373,930	\$ 2,762,605

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2002
(In Thousands)

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees	\$ 131,354
Grants and Contracts	469,455
Sales and Services of Auxiliary Operations	71,749
Sales and Services of Educational Departments	52,099
Repayment of Loans Receivable	6,109
Interest on Loans Receivable	992
Other Operating Receipts	22,489
Payments to Employees	(856,975)
Payments to Suppliers	(216,933)
Payments for Scholarships and Fellowships	(45,345)
Loans Issued to Students	(6,728)
Payments on Self-Insured Claims	(7,893)
Other Operating Expenses	(62,759)
Net Cash Used by Operating Activities	<u>(442,386)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	505,391
Direct Loan Program Receipts	119,167
Direct Loan Program Disbursements	(119,124)
Operating Subsidies and Transfers	5,423
Funds Held for Others	678
Other Nonoperating Receipts	1,108
Other Nonoperating Expenses	(1,170)
Net Cash Provided by Noncapital Financing Activities	<u>511,473</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	4,180
Capital Appropriations	54,482
Capital Subsidies and Transfers	4,484
Capital Grants and Gifts Received	36,833
Proceeds from Sales of Capital Assets	90
Other Receipts for Capital Projects	249
Purchases of Capital Assets	(138,444)
Principal Paid on Capital Debt and Leases	(5,790)
Interest Paid on Capital Debt and Leases	(7,264)
Net Cash Used by Capital and Related Financing Activities	<u>(51,180)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of Investments	643,423
Purchases of Investments	(657,980)
Interest on Investments	18,789
Net Cash Provided by Investing Activities	<u>4,232</u>
Net Increase in Cash and Cash Equivalents	22,139
Cash and Cash Equivalents, Beginning of Year	<u>90,569</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 112,708</u></u>

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2002
(In Thousands)

	<u>University</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (517,051)
Adjustments to Reconcile Net Operating Loss to	
Net Cash Used by Operating Activities	
Depreciation Expense	76,348
Changes in Assets and Liabilities:	
Receivables, Net	(25,743)
Inventories	(271)
Other Assets	423
Accounts Payable	(5,940)
Accrued Salaries and Wages Payable	1,141
Liability for Self-Insured Claims	6,056
Deferred Revenue	17,314
Deposits Held for Others	22
Compensated Absences	5,315
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (442,386)</u></u>

The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the University of Florida are described below to enhance the usefulness of the financial statements.

Reporting Entity. In prior fiscal years, Florida's public universities were governed by a Board of Regents, and their financial activities were reported in the State of Florida's financial statements as part of the primary government. Effective July 1, 2001, the Legislature amended Section 229.003, Florida Statutes, abolishing the Board of Regents and transferring its operations to the Florida Board of Education, which is responsible for overseeing kindergarten through graduate studies education. In addition, the Statute provided for separate boards of trustees appointed by the Governor for each university. Although the University is part of the State University System regulated and coordinated by the Florida Board of Education, effective July 1, 2001, it became a separate public instrumentality.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. Application of these criteria determines 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 or incomplete. Based on the application of these criteria, effective July 1, 2001, the University became a component unit of the State of Florida.

The governing body of the University is its Board of Trustees. The Board constitutes a body corporate composed of twelve (12) members appointed by the Governor and one student member. During the audit period, the Board of Trustees was under the general direction and control of the Commissioner of Education, the Chancellor of the Division of Colleges and Universities, and was governed by Florida law and rules of the Florida Board of Education. By statute, the Board of Trustees selects the University President and the Florida Board of Education must ratify the candidate selected. The University Board of Trustees adopts University rules and procedures, and plans for future needs of the University. The University President is responsible for the management of the University, and has the ultimate responsibility for administering the policies prescribed by the Board of Trustees.

Blended Component Unit. Based on the application of the criteria for determining component units, the University of Florida Healthcare Education Insurance Company (UFHEIC) is included within the University Board of Trustees' reporting entity as a blended component unit. The UFHEIC was created on September 1, 1994, as a self-insurance mechanism pursuant to Section 240.213, Florida Statutes. Although legally separate from the Florida Board of Education, the company is reported as if it is part of the primary government, because all shares of stock are owned by the Florida Board of Education and

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

the company's sole purpose is to assist in providing liability protection for the Florida Board of Education, and affiliated individuals and entities.

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following organizations are included within the University Board of Trustees' reporting entity as discretely presented component units. The University further categorizes its identified component units as direct support organizations, health science center affiliates, and shands hospital and others. Additional information on the University's component units, including copies of audit reports, is available by contacting the University Controller's Office.

Direct Support Organizations. The University's direct-support organizations, as provided for in Section 240.299, Florida Statutes, and Florida Administrative Code Rule 6C-9.011, are considered component units of the University of Florida and therefore the latest audited financial statements of these organizations are included in the financial statements of the University by discrete presentation. These are separate, not-for-profit corporations organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest and administer property and to make expenditures to or for the benefit of the University. An annual post audit of each organization's financial statements is conducted by independent certified public accountants. The annual report is submitted to the Auditor General and the University Board of Trustees for review. These not-for-profit corporations and their purposes are explained as follows:

- University of Florida Foundation, Inc.: Solicits, collects, manages, and directs contributions to the various academic departments and programs of the University and assists the University in public relations, fund raising, and maintenance of alumni records.
- University of Florida Research Foundation, Inc.: Promotes, encourages, and assists research activities of the University through income derived from or related to the development and commercialization of intellectual properties, which include inventions, discoveries, processes, and work products.
- University Athletic Association, Inc.: Conducts various inter-collegiate athletic programs for and on behalf of the University.
- Gator Boosters, Inc.: Supports athletic activities at the University.
- University of Florida Law Center Association, Inc.: Supports the College of Law.
- Florida Foundation Seed Producers, Inc.: Supplies Florida farmers and producers with crop seed and nursery stock. This organization stocks foundation seed of the best-known varieties acceptable to Florida climate and soils in adequate quantities and at reasonable prices.
- Florida 4-H Foundation, Inc.: Promotes the educational objectives of the Florida Cooperative Extension Service.
- Florida Association of Basic Medical Scientists, Inc.: Promotes research and education in the basic medical sciences.

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

- Southwest Florida Research and Education Foundation, Inc.: Provides research and educational support to the University of Florida Southwest Florida Research and Education Center.
- Citrus Research and Education Foundation, Inc.: Expedites citrus production, propagates new plant materials and environmental impact research data, and provides research and education support to the University of Florida Citrus Research and Education Center at Lake Alfred.
- University of Florida Tissue Bank, Inc.: Procures, develops, processes, and distributes human tissue for transplantation, in support of the education, research, and service programs of the Department of Orthopedics, College of Medicine. (Decertified as a Direct Support Organization in February 2001.)
- Florida Leadership and Education Foundation, Inc.: Was formed to further agriculture and natural resource education and related activities, promote agriculture and natural resources leadership, and make contributions to and confer benefits upon the University.
- Treasure Coast Agricultural Research Foundation, Inc.: Supports, encourages, and fosters research, education, and extension at the Institute of Food and Agricultural Sciences of the University on issues related to the citrus industry within the Indian River region.
- University of Florida Alumni Association, Inc.: Supports activities of the alumni of the University of Florida.
- University of Florida Research and Development Park, Inc.: Promotes, encourages, and assists the research activities of the faculty, staff, and students of the University and facilitates the transfer of their discoveries, inventions, processes, and work products to public use, all through the development of the University's research and development park. (Inactive)

Health Science Center Affiliates. The financial operations and financial position of several corporations closely affiliated with the University of Florida J. Hillis Miller Health Science Center (HSC) are considered to be component units of the University of Florida and therefore the latest audited statements of these organizations are included in the financial statements of the University by discrete presentation. The first seven corporations listed are faculty practice plans, as provided for in the Florida Administrative Code Rule 6C-9.017. Faculty practice plans provide educationally-oriented clinical practice settings and opportunities through which faculty members provide health, medical, and dental care to patients as an integral part of their academic activities and their employment as faculty. Because these faculty practice activities generate income, the colleges are authorized to regulate fees generated from faculty practice and maintain faculty practice plans for the orderly collection and distribution of fees. These organizations provide significant support for the clinical instruction function of the HSC. University of Florida Health Services, Inc., and University of Florida Jacksonville Healthcare, Inc., Health Services Support Organizations, as provided for in the Florida Administrative Code Rule 6C-9.020, engage in strategic alliances and partnerships with nonacademic entities, effecting managed care contracting and provider network development for the HSC. Faculty Clinic, Inc., was originally organized to operate a multi-specialty clinic. However, effective January 1, 1995, Faculty Clinic, Inc., was restructured to operate as a facilities management company. Jacksonville Health Education Programs, Inc., operates the Borland Medical Library in Jacksonville, Florida.

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

- Florida Clinical Practice Association, Inc., and University of Florida (UF) College of Medicine Academic Enrichment Fund (AEF)
- UF Jacksonville Physicians, Inc.
- Faculty Associates, Inc., and UF College of Dentistry AEF
- Florida Health Professions Associations, Inc., and UF College of Health Professions AEF
- UF College of Nursing Faculty Practice Association, Inc., and UF College of Nursing AEF
- UF College of Pharmacy Faculty Practice Association, Inc., and UF College of Pharmacy AEF
- Florida Veterinary Medicine Faculty Association, Inc., and UF College of Veterinary Medicine AEF
- UF Health Services, Inc.
- UF Jacksonville Healthcare, Inc.
- Faculty Clinic, Inc., d.b.a. UF Faculty Clinic/Jacksonville
- Jacksonville Health Education Programs, Inc.

Shands Hospital and Others

- Shands Teaching Hospital and Clinics, Inc.: Was incorporated October 15, 1979, as a not-for-profit corporation. Shands, a major tertiary care teaching institution, is a leading referral center in the State of Florida and the southeast United States and facilitates medical education programs at the University.

Shands entered into a contractual agreement, as of July 1, 1980, with the State Board of Education of the State of Florida, as subsequently restated and amended, which provides for the use of hospital facilities at the University of Florida Health Center through December 31, 2030, with renewal provisions. The contractual agreement also provides for the transfer to Shands of all other assets and liabilities arising from the operation of the hospital facilities prior to July 1, 1980. At termination of the contractual agreement, the net assets of Shands revert to the State Board of Education. Legal title to all buildings and improvements transferred to Shands remains with the State of Florida during the term of the contractual agreement. The contractual agreement provides for a 12-month grace period for any event of default, other than the bankruptcy of Shands. In addition, the contractual agreement limits the right of the State Board of Education to terminate the contractual agreement solely to the circumstance in which Shands declares bankruptcy and, in such event, requires net revenues derived from the operation of the hospital facilities to continue to be applied to the payment of Shands' debts.

Under the terms of the contractual agreement, Shands is obligated to manage, operate, maintain, and insure the hospital facilities in support of the programs of the Health Center at the University of Florida and further agrees to contract with the State Board of Education for the provision of these programs.

- Baby Gator Child Care Center, Inc.: Was incorporated October 19, 1970, under Florida Statutes, Chapter 240.531, to establish and operate an educational research center for child development for children of University of Florida students, faculty, and staff. The Center is funded primarily through fees paid by parents and an annual allocation of funds from the Capital Improvement Trust Fund established by the former Board of Regents of the State of Florida. In addition, the Center receives other governmental assistance.

The Center uses a facility owned by the University without charge. The University also provides other services and support for the Center, some also without charge. The Center's policy is to not record contributed facilities, services, and other support in its financial statements.

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

- University Village Apartments, Inc. (the Corporation): Was established in 1969, for the purpose of providing housing for low and moderate-income families, especially those affiliated with the University of Florida. Capital was contributed at inception by the University of Florida Foundation, Inc., but no capital stock was issued because the Corporation does not operate for the benefit of any special interest.

The Corporation provides housing under Section 221(d)(3) of the National Housing Act. The facility consists of twenty-eight two-story buildings regulated by the U. S. Department of Housing and Urban Development (HUD) as to rent charges and operating methods. The Corporation's major program is its Section 221 insured loan, which is in the repayment phase. Legal title to the property is held by the Corporation.

Basis of Presentation. The University's accounting policies conform with accounting principles generally accepted in the United States of America applicable to colleges and universities as prescribed by the Governmental Accounting Standards Board (GASB). The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB).

In November 1999, the Governmental Accounting Standards Board issued GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. This Statement includes public colleges and universities within the financial reporting guidelines of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. GASB Statement No. 35 allows public colleges and universities the option of reporting as a special-purpose government either engaged in only business-type activities, engaged in only governmental activities, or engaged in both governmental and business-type activities. The universities of the State University System, including the University of Florida, elected to report as entities engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity-wide reporting including the following components:

- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
 - Notes to Financial Statements

The University of Florida is a component unit of the State of Florida for financial reporting purposes. The financial balances and activities included in these financial statements are, therefore, also included in the State's comprehensive annual financial report.

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. Auxiliary service departments account for interdepartmental transactions as reductions of expenses and not revenues of those departments.

The University's principal operating activities consist of instruction, research and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities plus administration, operation and maintenance of plant assets, and depreciation on capital assets. Included in nonoperating revenues are State appropriations, investment income and revenues for capital construction projects. Interest on asset-related debts is a non-operating expense.

The University follows FASB Statements and interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The statement of net assets is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, grants, etc., it is the University's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the University and the amount that is actually paid by the student or third party making payment on behalf of the student. The University applied "The Alternate Method" as prescribed in *NACUBO Advisory Report 2000-05* to determine the tuition scholarship allowances reported in the statement of revenues, expenses, and changes in net assets. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be third-party aid.

The statement of cash flows is presented using the direct method and is in compliance with GASB Statement No. 9, *Reporting Cash Flow for Proprietary and Non-expendable Trust Funds*. Cash and cash

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

equivalents as presented on the statement of cash flows includes cash and unexpended general revenue releases.

Capital Assets. University capital assets consist of land, buildings, infrastructure and other improvements, furniture and equipment, property under capital lease, library resources, works of art and historical treasures, construction in progress, and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at appraised value at the date received in the case of gifts or purchases from the State Division of Surplus Property. Additions, improvements and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalized threshold of \$1,000 for all movable equipment items and a \$100,000 threshold or 25 percent of the cost of the building for building renovations and improvements. Depreciation is computed on the straight-line basis over the estimated useful life of the related assets.

The following ranges of estimated useful lives were used to determine depreciation expense:

- Buildings / Improvements – 20 to 50 Years, Depending on Construction
- Infrastructure and Other Improvements – 12 to 50 Years
- Leasehold Improvements – 5 to 20 Years or the Term of Lease, Whichever is Greater
- Furniture and Equipment:
 - Equipment (Non-office) – 10 to 20 Years
 - Computer Equipment – 3 to 7 Years
 - Moveable Equipment – 3 to 20 Years
- Library Resources – 10 Years

2. ACCOUNTING CHANGE FOR NEW REPORTING MODEL

In connection with the implementation of GASB Statements Nos. 34 and 35, the University adjusted beginning fund balances to account for the cumulative effect of the accounting change regarding accumulated depreciation on capital assets as of June 30, 2001, and the capitalization of previously expensed infrastructure. This change converts fund balances to net assets. The following tabulation summarizes the changes made to the beginning fund balances:

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

Description	Amount (In Thousands)
Fund Balances, Beginning of Year	\$ 2,037,428
To Record Accumulated Depreciation as of June 30, 2001, Per GASB Statements Nos. 34 and 35	(864,552)
To Record Previously Unrecorded Infrastructure, Per GASB Statements Nos. 34 and 35	12,328
Adjusted Net Assets, Beginning of Year	\$ 1,185,204

3. CASH

The amounts reported as cash consist of cash on hand, cash in demand accounts, and cash held in the State of Florida Treasury. Cash in demand accounts is held in banks qualified in accordance with the provisions of Chapter 280, Florida Statutes, as a public depository. Deposits are fully insured by Federal depository insurance or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Revolving funds authorized by the State Chief Financial Officer for deposit in banks in Italy totaled \$100,000. As of June 30, 2002, actual deposits in foreign banks totaled \$48,283.

4. INVESTMENTS

The University participates in investment pools through the State Treasury and the State Board of Administration in accordance with the provisions of Sections 18.125 and 215.49, Florida Statutes. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes. The University's investments in these pools are reported at market value.

Additionally as authorized by Section 240.213(2), Florida Statutes, and specifically authorized by the former Board of Regents in 1995, the University has invested assets of the Health Center Self-Insurance Program outside the State Treasury. Local investments consist of instruments listed in Section 215.47, Florida Statutes, and are reported at market value. The University has also received donations of marketable securities. These securities are reported at market value.

Generally accepted accounting principles require the classification of credit risk of investments into the following three categories:

- Risk Category 1 – Insured or registered, or securities held by the entity or its agent in the entity's name.
- Risk Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

- Risk Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name.

University investments in the investment pools managed by the State Treasury and the State Board of Administration cannot be categorized because the University's investments are not evidenced by specific, identifiable investment securities.

Investments of the University at June 30, 2002, are shown below:

	Investments			
	Risk Category			Market Value
	1	2	3	
United States Government and Federally-Guaranteed Obligations	\$	\$ 21,689,585	\$	\$ 21,689,585
Bonds and Notes		19,006,416		19,006,416
Stocks	15,493			15,493
Certificates of Deposit	750,000			750,000
Total Classified Investments	<u>\$ 765,493</u>	<u>\$ 40,696,001</u>	<u>\$</u>	41,461,494
External Investment Pools:				
Florida State Treasury				359,762,908
Florida State Board of Administration				759,000
Money Market and Mutual Funds				11,993,901
Total University Investments				<u>\$ 413,977,303</u>

Investments held by the University's component units at the end of their fiscal year are reported at market value based on quoted market prices. These investments consist of the following:

	Investments			Market Value
	Risk Category			
	1	2	3	
United States Government and Federally-Guaranteed Obligations	\$ 100,905,788	\$	\$ 6,669,063	\$ 107,574,851
Federal Agency Obligations			3,316,095	3,316,095
Bonds and Notes	40,802,229			40,802,229
Stocks	138,334,524		10,507,705	148,842,229
Certificates of Deposit	356,000			356,000
Total Classified Investments	<u>\$ 280,398,541</u>	<u>\$</u>	<u>\$ 20,492,863</u>	300,891,404
Investment Agreements				43,503,549
Real Estate Agreements				11,401,352
Money Market and Mutual Funds				844,707,083
Total Component Units Investments				<u>\$ 1,200,503,388</u>

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

5. RECEIVABLES

Accounts Receivable. Accounts receivable reported in the statement of net assets represent amounts for student fees and various student services provided by the University, various auxiliary services provided to students and third parties, grant reimbursements from third parties and interest accrued on investments.

Loans and Notes Receivable. Loans and notes receivable represent all amounts owed on promissory notes from debtors including student loans made under the Federal Perkins Loan Program and other loan programs.

Allowances for Uncollectible Receivables. The University provides allowances for uncollectible accounts and notes receivable based upon management's best estimate of uncollectible accounts and notes at fiscal year end, considering type, age, collection history of receivables, and any other factors as considered appropriate. Accounts receivable are reported net of an allowance of \$7,003,561, which is 8 percent of total related accounts receivable. Loans and notes receivable are reported net of an allowance for uncollectible loans and notes of \$3,646,876, which is 10 percent of total related loans and notes receivable.

6. DUE FROM AND TO COMPONENT UNITS/PRIMARY GOVERNMENT

The University's financial statements are reported for the fiscal year ended June 30, 2002. The University's component units financial statements are reported for their most recent fiscal year where an audit report is available. In most cases, this is the fiscal year ended in 2001. Accordingly, amounts reported by the component units and the University as due from and to component units/primary government on the statement of net assets do not agree.

7. INVENTORIES

Inventories have been categorized into the following two types:

- **Departmental Inventories:** Those inventories maintained by departments and not available for resale. Departmental inventories are comprised of such items as classroom and laboratory supplies, teaching materials, and office supply items, which are consumed in the teaching/work process. These inventories are normally expensed when purchased and therefore are not reported on the statement of net assets.
- **Merchandise Inventories:** Those inventories maintained which are available for resale to individuals and other University departments and are not expensed at the time of purchase. These inventories are reported on the statement of net assets and are valued at cost using either the moving average method or the first-in, first-out method.

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A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

8. CAPITAL ASSETS

The activity of the University's major classes of capital assets for the 2001-02 fiscal year is presented as follows:

Description	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 9,529,464	\$ 789,847	\$ 173,427	\$ 10,145,884
Construction in Progress	96,889,116	89,746,547	96,390,202	90,245,461
Works of Art and Historical Treasures	413,062			413,062
Total Nondepreciable Capital Assets	106,831,642	90,536,394	96,563,629	100,804,407
Depreciable Capital Assets:				
Buildings	905,368,595	80,687,231	3,311,936	982,743,890
Infrastructure and Other Improvements	41,519,964	16,675,539	48,754	58,146,749
Furniture and Equipment	447,457,610	50,254,654	38,119,046	459,593,218
Library Resources	183,991,396	15,300,730	860,734	198,431,392
Property Under Capital Lease and Lease Improvements	3,000,000	6,815,002		9,815,002
Works of Art and Historical Treasures	149,331	150,762		300,093
Other Capital Assets	6,130,924	1,293,106	1,389,562	6,034,468
Total Depreciable Capital Assets	1,587,617,820	171,177,024	43,730,032	1,715,064,812
Less Accumulated Depreciation:				
Buildings	457,843,162	16,185,526	3,311,936	470,716,752
Infrastructure and Other Improvements	28,054,696	3,813,926	48,754	31,819,868
Furniture and Equipment	246,663,930	43,961,474	38,480,944	252,144,460
Library Resources	128,013,677	10,377,530	168,047	138,223,160
Property Under Capital Lease and Lease Improvements	387,000	75,000		462,000
Works of Art and Historical Treasures	84,935	19,655		104,590
Other Capital Assets	3,504,275	1,914,923	2,082,249	3,336,949
Total Accumulated Depreciation	864,551,675	76,348,034	44,091,930	896,807,779
Total Depreciable Capital Assets, Net	723,066,145	94,828,990	(361,898)	818,257,033
Total Capital Assets, Net	\$ 829,897,787	\$ 185,365,384	\$ 96,201,731	\$ 919,061,440

9. MUSEUM AND ART COLLECTIONS

The Florida Museum of Natural History, which is part of the University, maintains a depository of biological, geological, archaeological, and ethnographic materials. The Museum's collections contain approximately 10,000,000 individual items, more than half of which is catalogued, either individually or in lots. While many of the collections are undoubtedly quite valuable and irreplaceable, the University has

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

not placed a dollar valuation on these items and, accordingly, the financial statements do not include these assets.

10. LONG-TERM LIABILITIES

Long-term liabilities of the University include bonds, revenue certificates, installment purchases, capital leases, compensated absences, and self-insured claims. A summary of the University's long-term liability activity for the fiscal year ended June 30, 2002, was as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and Revenue Certificates	\$ 135,724,905	\$ 4,198,208	\$ 4,955,658	\$ 134,967,455	\$ 5,763,460
Installment Purchases	142,337	740,007	524,090	358,254	149,022
Capital Leases	1,182,182	3,181,127	294,848	4,068,461	64,751
Compensated Absences	99,493,423	5,314,771		104,808,194	5,634,970
Liability for Self-Insured Claims	32,426,799	12,066,711	6,010,882	38,482,628	6,883,449
Total Long-Term Liabilities	\$ 268,969,646	\$ 25,500,824	\$ 11,785,478	\$ 282,684,992	\$ 18,495,652

Revenue Certificates and Bonds Payable. Bonds and revenue certificates were issued to construct University facilities including parking garages, student housing, and academic and student service facilities. Bonds and revenue certificates outstanding, which include both term and serial bonds, are secured by a pledge of housing rental revenues, traffic and parking fees and various student fee assessments. The building fee and capital improvement fee collected as a part of tuition and remitted to the Florida Board of Education is used to retire the revenue certificates for the academic and student service facilities.

A summary of pertinent information related to the University's bond indebtedness is presented on the following page:

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Bonds	Amount of Original Issue	Total Retired	Amount Outstanding		Interest Rate (Percent)	Annual Maturity To
			Principal	Interest		
Student Housing Bonds:						
1959E	\$ 3,730,000	\$ 3,267,000	\$ 463,000	\$ 26,070	3.00	2005
1959F	1,500,000	1,020,000	480,000	73,900	3.00	2011
1962	400,000	400,000			3.50	2002
1974	2,880,000	2,470,000	410,000	43,750	7.00	2004
1984	3,500,000	1,645,000	1,855,000	380,550	3.00	2014
1993	13,000,000	1,725,000	11,275,000	8,049,250	4.90 - 5.50	2023
1998	26,155,000	1,695,000	24,460,000	15,676,296	4.00 - 6.00	2028
2000	30,695,000		30,695,000	30,656,419	5.00 - 7.00	2030
Subtotal	81,860,000	12,222,000	69,638,000	54,906,235		
Parking Garage Bonds:						
1993	19,545,000	7,270,000	12,275,000	3,165,678	4.20 - 5.00	2014
1998	10,000,000	725,000	9,275,000	3,992,175	3.65 - 4.75	2019
Subtotal	29,545,000	7,995,000	21,550,000	7,157,853		
Academic and Student Services Facilities Bonds:						
1991	5,686,923	5,644,012	42,911	2,789	6.25 - 6.50	2003
1993	22,548,089	8,202,751	14,345,338	4,568,399	4.750 - 5.375	2013
1997	11,349,317	1,514,064	9,835,253	6,480,525	5.0 - 7.0	2022
1997A	4,723,765	175,261	4,548,504	2,102,109	4.10 - 5.00	2016
1998	13,783,839	1,327,845	12,455,994	7,286,282	4.25 - 5.00	2023
2001	4,259,373	41,525	4,217,848	2,845,026	4.00 - 5.00	2026
Subtotal	62,351,306	16,905,458	45,445,848	23,285,130		
Less Bond Discounts			1,666,393			
Total Bonds	\$ 173,756,306	\$ 37,122,458	\$ 134,967,455	\$ 85,349,218		

Principal and interest requirements on the above bonded debt outstanding as of June 30, 2002, is presented on the follow page:

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<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 5,763,460	\$ 6,845,430	\$ 12,608,890
2004	6,012,455	6,554,151	12,566,606
2005	5,967,924	6,263,987	12,231,911
2006	6,110,945	5,980,960	12,091,905
2007	6,378,844	5,685,737	12,064,581
2008-12	31,757,591	23,935,224	55,692,815
2013-17	28,829,848	16,149,922	44,979,770
2018-22	24,577,467	9,292,967	33,870,434
2023-27	14,460,314	3,960,215	18,420,529
2028-30	6,775,000	680,625	7,455,625
Subtotal	136,633,848	85,349,218	221,983,066
Less, Bond Discount	1,666,393		1,666,393
Total	<u>\$ 134,967,455</u>	<u>\$ 85,349,218</u>	<u>\$ 220,316,673</u>

Installment Purchase Contracts. The University has entered into several installment purchase contracts for the purchase of equipment reported at \$1,044,724. The following is a schedule of future minimum payments remaining under the contracts at fiscal year end:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2003	\$ 160,608
2004	141,969
2005	69,054
2006	5,530
Total Minimum Payments	377,161
Less Interest	18,907
Total Present Value	<u>\$ 358,254</u>

The interest ranged from 3.2 to 5.92 percent.

Obligations Under Capital Lease. On June 8, 1994, the former Board of Regents, on behalf of the University of Florida, entered into a lease agreement with the University of Florida Foundation, Inc. (the Foundation), a direct-support organization (component unit) of the University of Florida. Under the terms of the agreement, the University of Florida agreed to lease from the Foundation a 607-space parking garage (the garage) located near the Health Center Administrative Offices for a period of thirty years beginning July 1, 1994. Rent of \$100,000 annually is due each July 1. The garage was simultaneously acquired by the Foundation from Shands Teaching Hospital and Clinics, Inc. (Shands), also a component unit, and financed by the Foundation through the issuance of a promissory note secured by a nonrecourse mortgage containing payment terms similar to those in the lease agreement between the Foundation and the University of Florida. Annual payments of \$100,000 for thirty years from the

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University of Florida to the Foundation and from the Foundation to Shands were based on an original construction cost of \$3,000,000 and no interest. For reporting purposes, the lease is considered a capital lease under the Financial Accounting Standards Board (FASB) Statement No. 13, *Accounting for Leases*. The initial obligation was discounted at an imputed interest rate of 6.45 percent and was recorded at \$1,382,470. The asset, "Leased Property Under Capital Lease", was recorded at cost to Shands of \$3,000,000.

On March 1, 2000, the University of Florida, acting for and on behalf of the former Board of Regents, entered into a lease agreement with the Shands Teaching Hospital and Clinics, Inc. (Shands), a component unit of the University of Florida. Under the terms of the agreement, the University of Florida agreed to lease from Shands an 800-space parking garage (the garage) located near the Health Center Administrative Offices for a period of thirty years beginning March 1, 2000. Rent of \$227,167 annually is due each May 1, beginning May 1, 2001. Annual payments of \$227,167 for thirty years from the University of Florida to Shands were based on an original construction cost of \$6,815,002 and no interest. For reporting purposes, the lease is considered a capital lease under FASB Statement No. 13, *Accounting for Leases*. The initial obligation was discounted at an imputed interest rate of 6.45 percent and was recorded at \$2,981,939. The asset, "Leased Property Under Capital Lease", was recorded at cost to Shands of \$6,815,002.

A summary of pertinent information related to the two capital leases follows:

	Interest Rate	Original Balances	Outstanding Balances 6-30-02
Shands 607-Space Parking Garage	6.45	\$ 1,382,470	\$ 1,158,433
Shands 800-Space Parking Garage	6.45	2,981,939	2,910,028
Total		<u>\$ 4,364,409</u>	<u>\$ 4,068,461</u>

Principal and interest requirements on the above outstanding balances are presented on the following page:

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Fiscal Year Ending June 30	Principal	Interest	Total
2003	\$ 64,751	\$ 262,416	\$ 327,167
2004	68,927	258,240	327,167
2005	73,373	253,794	327,167
2006	78,106	249,061	327,167
2007	83,144	244,023	327,167
2008-12	503,421	1,132,413	1,635,834
2013-17	688,113	947,721	1,635,834
2018-22	940,563	695,271	1,635,834
2023-27	965,865	369,969	1,335,834
2028-30	602,198	79,301	681,499
Total	\$ 4,068,461	\$ 4,492,209	\$ 8,560,670

Compensated Absences Liability. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Florida Administrative Code Rule 6C-5.920, and pursuant to bargaining agreements between the Florida Board of Education and the United Faculty of Florida. Leave earned is accrued to the credit of the employee, and records are kept on each employee's unpaid (unused) leave balance. GASB Statement No. 16 requires that the University accrue a liability in the statement of net assets for employees' vested right to receive compensation for future absences when certain conditions are met, whereas State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. Consequently, the recording of the liability for compensated absences, without the corresponding recognition of such future resources, results in the appearance of a reduced ability to meet current obligations. At June 30, 2002, the total estimated liability for annual, sick, and compensatory leave, which includes the University's share of the Florida Retirement System and FICA contributions, was \$52,249,943, \$52,212,242, and \$346,009, respectively. The current portion of the compensated absences liability is based on actual pay-outs over the last three years, calculated as a percentage of those years' total compensated absences liability. The University's total net assets balance at June 30, 2002, of \$1,278,493,658 would have been \$1,383,301,852 had the liability for compensated absences not been applied against it.

11. INTERDEPARTMENTAL AUXILIARY SALES

Interdepartmental sales between auxiliary service departments and other institutional departments have been eliminated from expenditures and revenues for reporting purposes. The interdepartmental transactions eliminated in the financial statement preparation totaled \$74,106,960 for the fiscal year ended June 30, 2002.

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12. OPERATING LEASES

The University has long-term commitments for assets leased under operating lease agreements. These leased assets and the related commitments are not recorded on the University's statement of net assets; however, the operating lease payments are recorded as expenses in the statement of revenues, expenses, and changes in net assets when paid or incurred. Outstanding commitments resulting from these lease agreements are not considered material, and are contingent upon future appropriations. Total building lease expenses (excluding those leases renewed on an annual basis) under these agreements was \$1,127,154 for the fiscal year ended June 30, 2002. The future minimum building lease payments at June 30, 2002 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Payments</u>
2003	\$ 1,003,818
2004	849,506
2005	701,204
2006	347,118
2007	225,964
2008	64,755
Total	<u>\$ 3,192,365</u>

13. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The operating expenses on the statement of revenues, expenses, and changes in net assets are presented in the natural classifications. Below are those same expenses presented in functional classifications as recommended by NACUBO. The functional classification (instruction, research, etc.) is assigned to a department based on the nature of the activity which represents the material portion of the activity attributable to the department. For example, activities of academic departments for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The following is a summary of the functional classification of expenses:

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Function	Amount (In Thousands)
Instruction	\$ 415,906
Research	333,394
Public Service	105,678
Academic Support	84,312
Student Services	27,764
Institutional Support	72,997
Operations and Maintenance of Plant	66,725
Scholarships and Fellowships	11,033
Auxiliary Operations	78,566
Loan Operating Expenses	499
Depreciation	76,348
Total Operating Expenses	\$ 1,273,222

14. CONSTRUCTION COMMITMENTS

A summary of construction commitments (\$1 million or more) at June 30, 2002, are presented on the following page:

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Project Name	Current Commitment	Expenses	Commitment Balance
Southwest Recreation Center Expansion	\$ 4,748,800	\$ 4,528,686	\$ 220,114
New Hume Hall	23,985,902	17,372,031	6,613,871
Quarantine Facility-Indian River REC	3,889,000	95,684	3,793,316
PK Yonge Laboratory School Structural Emergency Phase 1	8,000,000	1,082,582	6,917,418
Hall of Florida Fossils-Museum of Natural History	1,000,000	562,355	437,645
Reitz Union Expansion	7,000,000	5,018,675	1,981,325
Security Lighting	2,531,003	1,575,173	955,830
Orthopedics Surgery and Sports Medicine Institute	23,000,000	11,300	22,988,700
New Bookstore with Attached Parking and Visitor/Welcome Center	8,300,000	1,481,470	6,818,530
O'Connell Center Improvements	1,500,000	454,842	1,045,158
Murphy Residence Hall Electrical Upgrade	2,500,000	1,749,116	750,884
Diamond Village Renovation	4,500,000	1,996,461	2,503,539
Constans Theatre Addition	7,493,200	329,034	7,164,166
Genetic and Cancer Research Center	5,200,000		5,200,000
IFAS Gulf Coast REC Renovations and Repairs	1,500,000	573,588	926,412
Weil Hall Renovation	8,382,721	2,278,703	6,104,018
Library West Addition and Renovation	1,736,000	82,469	1,653,531
IFAS Relocation and Construction Trust Fund	5,487,337	1,238,439	4,248,898
1999-2000 Maintenance, Repairs and Renovations	1,395,814	1,256,938	138,876
Lepidoptera Facility	8,400,000	509,675	7,890,325
Development and Upgrade of Active/Passive Recreational Facility	1,700,000		1,700,000
Utility Infrastructure Improvements	11,195,869	3,334,610	7,861,259
Pharmacy Building Renovation	1,600,000	290,537	1,309,463
1999-2000 Capital Renewal, ADA and Fire Safety	3,256,900	2,903,831	353,069
Health Professions, Nursing, and Pharmacy Complex	29,074,000	15,721,524	13,352,476
2000-01 Maintenance, Repairs, and Renovations	9,591,929	5,896,870	3,695,059
2001-02 Critical Deferred Maintenance	6,580,340	298,982	6,281,358
WUFT-TV/FM Gainesville	4,159,400	3,847,977	311,423
Critical Deferred Maintenance	6,326,647	5,245,756	1,080,891
UMC-Shands Jacksonville Proton Beam Facility	11,000,000	1,214,897	9,785,103
M. E. Rinker, Sr., Hall School of Building Construction	7,952,000	2,601,396	5,350,604
2001-02 Maintenance, Repair, Renovation, and Remodeling	9,526,563	1,208,737	8,317,826
Total	\$ 232,513,425	\$ 84,762,338	\$ 147,751,087

15. RETIREMENT PLANS

Florida Retirement System. Most employees working in regularly established positions of the University are covered by the Florida Retirement System, a State-administered cost-sharing multiple-employer public employee defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein plan eligibility, contributions, and benefits are defined and described in detail. Participating employers include all State departments, counties, district school boards, universities and community colleges. Many

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municipalities and special districts have elected to be participating employers. Essentially, all regular employees of participating employers are eligible and must enroll as members of the plan.

The Florida Legislature has reduced the vesting period from ten to six years of service. Any member employed in a regularly established position on (as of) July 1, 2001, with a total of six or more years of creditable service will be considered vested. Former members who are not employed with a participating Plan employer on July 1, 2001, must return to covered employment for one year to become eligible for the six-year vesting provision. An exception to this one-year requirement applies to former members who are within one year of vesting under the pre-2001 vesting requirements. These members will only be required to work the lesser of one year or the amount of time it would have taken to vest in their class of membership prior to July 1, 2001. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to four years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Optional Program (DROP), subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly retirement benefit payment while continuing employment with a Florida Retirement System employer. An employee may participate in the DROP for a period not to exceed 60 months after the participation election date. During DROP participation, the deferred monthly benefit accruing on behalf of the participant, plus interest compounded monthly, is held in the Florida Retirement System Trust Fund. Upon termination of employment, the participant receives the total DROP benefits and begins to receive previously determined retirement benefits.

The Plan's financial statements and other supplemental information are included in the comprehensive annual financial report of the State of Florida, which is available from the State of Florida, Department of Financial Services in Tallahassee, Florida. An annual report on the Plan, which includes its financial statements, required supplemental information, actuarial report, and other relevant information is available from the State of Florida, Division of Retirement in Tallahassee, Florida.

The State of Florida establishes contribution rates for Plan members. During the 2001-02 fiscal year, contribution rates for the employer are presented on the following page:

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Class or Plan	Percent of Gross Salary (A)
Florida Retirement System, Regular	7.30
Florida Retirement System, Senior Management Service	9.28
Florida Retirement System, Special Risk	18.44
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	12.67
Note: (A) Employer rates include contributions for health insurance subsidy of 1.11 percent for each membership class (See note 16).	

The University's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's total contributions made to the Plan for fiscal years ended June 30, 2000, June 30, 2001, and June 30, 2002, totaled \$32,300,636, \$30,526,712, and \$26,522,648, respectively, none from employee contributions.

State University System Optional Retirement Program. Pursuant to Section 121.35, Florida Statutes, the Florida Legislature created an Optional Retirement Program (Program) for eligible State University System faculty and administrators. The Program, which became effective July 1, 1984, was expanded in 1988 to include the State University System Executive Service. The Program is designed to aid the university system in recruiting employees by offering more portability to those employees who are not expected to remain in the Florida Retirement System for six or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program rather than the Florida Retirement System, and purchase retirement and death benefits through contracts provided by certain insurance carriers. Effective July 1, 2001, the employing university contributes on behalf of the participant an amount equal to 10.43 percent of the participant's gross monthly compensation. A small amount remains in the Optional Retirement Program Trust Fund for program administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute by salary deduction an amount not to exceed the percentage contributed by the University to the participant's account.

There were 4,256 University participants during the 2001-02 fiscal year. Required contributions made to the Program totaled \$24,724,074, including \$12,287,279 from employee contributions, on a covered payroll of \$247,389,862.

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Institute of Food and Agricultural Sciences Supplemental Retirement. In 1984, the Florida Legislature enacted the Institute of Food and Agricultural Sciences Supplemental Retirement Act to provide a supplement to the monthly retirement benefit being paid under the Federal Civil Service Retirement System to retirees of the Institute of Food and Agricultural Sciences (IFAS) at the University of Florida. The supplement is designated for IFAS cooperative extension employees employed before July 1, 1983, who are not entitled to benefits from either a State-supported retirement system or social security based on their service with IFAS. It was intended to compensate these IFAS employees for the difference between their Civil Service benefit and the benefits a Florida Retirement System (FRS) member receives, which include a social security benefit. No additional persons can become eligible for this supplement.

Employee contributions were \$578,308, and employer contributions were \$1,285,333. For the 2001-02 fiscal year, the University's covered payroll was \$7,104,524 for 123 employees.

Other Retirement Programs. Other retirement programs include the Florida Teacher's Retirement System and the U.S. Civil Service Retirement System. Eight employees were covered by the Florida Teacher's Retirement System during the 2001-02 fiscal year. Employer contributions were \$67,846, and employee contributions were \$37,360 on a covered payroll of \$612,761.

Nineteen employees were covered by the U.S. Civil Service Retirement System during the 2001-02 fiscal year. Employer contributions were \$114,634, and employee contributions were \$94,294 on a covered payroll of \$1,132,527.

16. POST-EMPLOYMENT BENEFITS

Pursuant to Section 112.363, Florida Statutes, the Florida Legislature established the Retiree Health Insurance Subsidy (HIS) to assist retirees of all State-administered retirement systems in paying health insurance costs. During the 2001-02 fiscal year, the HIS program was funded by required contributions consisting of 1.11 percent assessed against the payroll for all active employees covered in State-administered retirement systems.

Eligible retirees, spouses, or financial dependents under any State-administered retirement system must provide proof of health insurance coverage, which can include Medicare. During the 2001-02 fiscal year, participants received an extra \$5 per month for each year of creditable service completed at the time of retirement; however, no eligible retiree or beneficiary may receive a subsidy payment of more than \$150 or less than \$30. If contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

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17. RISK MANAGEMENT PROGRAMS

State Self-Insurance Funds. In accordance with a program for central insurance purchases adopted by the Florida Cabinet in 1969, the Department of Management Services has authority to purchase insurance on behalf of all State agencies. This authority was granted with the enactment of Section 287.022, Florida Statutes. Other actions by the Legislature have resulted in the development of State self-insurance funds providing hazard insurance for property and casualty insurance for State employees workers' compensation, general liability, and fleet automotive liability. The University participates in these programs. Property losses in excess of \$4 million are commercially insured up to \$300 million per loss event. Payments on tort claims are limited to \$100,000 per person and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculations of premiums consider the cash needs of the program and the amount of risk exposure for each State agency. There have been no significant reductions in insurance coverage from the prior year coverage. Settlements have not exceeded insurance coverage during the past three years.

University employees may obtain health care services through participation in the State of Florida's group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of losses covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Division of Group Insurance in the Department of Management Services.

University Self-Insurance Programs. The J. Hillis Miller Health Science Center (JHMHC) Self-Insurance Program and the University of Florida JHMHC/Jacksonville Self-Insurance Program were established by the former Board of Regents pursuant to the authority of Section 240.213, Florida Statutes. The Self-Insurance Programs are used to account for a program of general and professional liability protection for the Florida Board of Education acting as the six health colleges of the Health Science Center, including the Student Health Service Auxiliary and the Veterinary Medical Teaching Hospital. Hospital professional liability protection is provided to Shands Teaching Hospital and Clinics, Inc., Shands Jacksonville Medical Center, Inc., the Shands community hospitals in Gainesville, Starke, Lake City and Live Oak, and other statutorily permitted entities, which voluntarily participate in the Self-Insurance Programs. The Health Science Center is protected for losses, which are subject to Section 768.28, Florida Statutes, including legislative claims bills, which in combination with the waiver of immunity limits described in Section 768.28, Florida Statutes, do not exceed \$1 million per claim. The Self-Insurance Programs provide \$2.5 million per-claim protection for the participants, which are not subject to the provisions of Section 768.28, Florida Statutes. The per-claim limit of liability protection for

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the participants does not exceed \$2.5 million per claim in the event more than one protected entity is involved in the same claim or action. The Gainesville Self-Insurance Program retains annual aggregate limits of liability protection of \$8.5 million and \$9 million for Jacksonville.

Pursuant to the authority of Rule 6C-10.001(2), Florida Administrative Code, the University of Florida Self-Insurance Program Councils have created the University of Florida Healthcare Education Insurance Company (HEIC), a captive insurance company which is wholly owned by the Florida Board of Education and which is domiciled in the State of Vermont. HEIC is managed by a Board of Directors created by the Florida Board of Education for that purpose. HEIC provides \$50,000,000 of per-claim and annual aggregate claims coverage on a claims-made basis for losses, which are in excess of the protections afforded by the Self-Insurance Programs. The excess insurance is paid to claimants on a first come-first serve basis. HEIC fully reinsures all risks underwritten.

Claims settlement and adjustment expenses are accrued as expenses and liabilities of the University of Florida JHMHC Self-Insurance Program, inclusive of the University of Florida JHMHC Self-Insurance Program (Gainesville), the University of Florida JHMHC/Jacksonville Self-Insurance Program and University of Florida Healthcare Education Insurance Company, for the estimated settlement value of claims reported as a "Liability for Self-Insured Claims". The estimated settlement value of claims was determined on the basis of the judgment and experience of management and the Self-Insurance Program Councils through a case-by-case review. Estimated losses from incurred but unreported incidents are accrued based upon the findings of casualty actuaries.

The amount of "Liability for Self-Insured Claims" accrued for the Self-Insurance Program for the 2001-02 fiscal year was \$38,482,628 for compensatory losses and for allocated expenses. The "Liability for Self-Insured Claims" was accrued at an undiscounted present value.

The aggregate amount of claims liabilities for which annuity contracts have been purchased in the claimants' names and for which the related liabilities have been removed from the statements of net assets totals \$338,684 for the Self-Insurance Program at June 30, 2002. These annuities have been assigned to third parties, and all claimants have fully and completely released trust fund participants from all actual and contingent liability.

Changes in the balances of claims liabilities for the Self-Insurance Program during the fiscal years ended June 30, 2001, and June 30, 2002, are presented on the following page:

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Fiscal Year	Claims Liabilities Beginning of Year	Current Claims/ Changes in Estimates	Claim Payments	Claims Liabilities End of Year
2000-01	\$ 29,552,808	\$ 7,104,305	\$(4,230,314)	\$ 32,426,799
2001-02	32,426,799	12,066,711	(6,010,882)	38,482,628

18. CONTINGENT LIABILITIES

The University is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the University's attorneys and management, should not materially affect future operations and the financial condition of the University.

19. SUBSEQUENT EVENTS

In November 2002, Shands Teaching Hospital and Clinics, Inc. (Shands) finalized a Funding Agreement with Shands Jacksonville Healthcare, Inc.; Shands Jacksonville Medical Center, a subsidiary of Shands Jacksonville Healthcare, Inc.; and the City of Jacksonville. In recognition of this Funding Agreement, the University of Florida will provide \$20,000,000 in operational support to Shands Jacksonville Medical Center over the next several years.

20. PRIOR PERIOD ADJUSTMENTS OF COMPONENT UNITS

Other net asset adjustments were made only when amounts were considered material in accordance with Accounting Principles Board Opinions Nos. 9 and 20 and FASB Statement No. 16. All other nonmaterial adjustments were reported through current year operations. The following tabulation summarizes the total adjustments to net assets reported in the statement of revenues, expenses, and changes in net assets:

Description	Amount (In Thousands)
Gator Boosters, Inc.:	
To Remove Endowment Assets that are Reported by University of Florida Foundation, Inc.	\$ 18,827
University of Florida Foundation, Inc.:	
To Increase Liability for Amounts Invested on Behalf of University of Florida Related Entities	9,773
University Village Apartments, Inc.:	
To Record Net Asset Balance at June 30, 2001	(873)
Adjustments to Beginning Net Assets	\$ 27,727

**UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002**

21. COMPONENT UNITS

Summary financial information from the most recent available audited financial statements of direct support organizations and other component units of the University of Florida, as mentioned in the summary of significant accounting policies, is presented on the following pages:

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

	Direct Support Organizations (In Thousands)				
	University of Florida Foundation, Inc. 6-30-01	University of Florida Research Foundation, Inc. 6-30-01	University Athletic Association, Inc. 6-30-01	Gator Boosters, Inc. 6-30-01	University of Florida Law Center Association, Inc. 6-30-01
CONDENSED STATEMENT OF NET ASSETS					
Assets:					
Due from Primary Government/Component Units	\$	\$ 45,556	\$ 3,899	\$ 3,986	\$ 5,043
Other Current Assets	170,828	25,445	21,402	3,135	553
Capital Assets, Net	22,765		64,592	79	
Other Noncurrent Assets	742,067	92,623	29,355		
Total Assets	935,660	163,624	119,248	7,200	5,596
Liabilities:					
Due to Primary Government/Component Units	51,316	8,028		1,905	
Other Current Liabilities	11,718	32,130	40,304	867	3,015
Noncurrent Liabilities	32,147		26,900	115	
Total Liabilities	95,181	40,158	67,204	2,887	3,015
Net Assets:					
Restricted	817,346	77,939	363	3,759	2,082
Unrestricted	19,442	45,527	14,788	475	499
Invested in Capital Assets, Net of Related Debt	3,691		36,893	79	
Total Net Assets	\$ 840,479	\$ 123,466	\$ 52,044	\$ 4,313	\$ 2,581
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS					
Operating Revenues	\$ 29,874	\$ 125,421	\$ 39,632	\$ 18,409	\$ 604
Operating Expenses	(76,026)	(57,144)	(51,166)	(2,144)	(688)
Operating Income (Loss)	(46,152)	68,277	(11,534)	16,265	(84)
Nonoperating Revenues (Expenses):					
Investment Income (Loss)	(47,798)	668	1,340	1,189	222
Addition to Permanent Endowments	45,763			17	2
Transfers From/(To) Primary Government and Component Units	(1,780)	5,800	14,328	(17,473)	(68)
Change in Net Assets	(49,967)	74,745	4,134	(2)	72
Net Assets, Beginning of Year	900,219	48,721	47,910	23,142	2,509
Adjustments to Beginning Net Assets	(9,773)			(18,827)	
Adjusted Net Assets, Beginning of Year	890,446	48,721	47,910	4,315	2,509
Net Assets, End of Year	\$ 840,479	\$ 123,466	\$ 52,044	\$ 4,313	\$ 2,581

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

Direct Support Organizations (Continued)
(In Thousands)

	Florida Foundation Seed Producers, Inc. 6-30-01	Florida 4-H Foundation, Inc. 3-31-01	Florida Association of Basic Medical Scientists, Inc. 6-30-01	Southwest Florida Research and Education Foundation, Inc. 6-30-01	Citrus Research and Education Foundation, Inc. 6-30-01
CONDENSED STATEMENT OF NET ASSETS					
Assets:					
Due from Primary Government/Component Units	\$	\$ 2,087	\$	\$	\$
Other Current Assets	1,871	913	21	24	122
Capital Assets, Net	1,215			68	5
Other Noncurrent Assets					
Total Assets	3,086	3,000	21	92	127
Liabilities:					
Due to Primary Government/Component Units	554				
Other Current Liabilities	78	888			7
Noncurrent Liabilities					
Total Liabilities	632	888			7
Net Assets:					
Restricted		1,802			
Unrestricted	1,238	310	21	25	115
Invested in Capital Assets, Net of Related Debt	1,216			67	5
Total Net Assets	\$ 2,454	\$ 2,112	\$ 21	\$ 92	\$ 120
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS					
Operating Revenues	\$ 1,585	\$ 1,242	\$	\$ 40	\$ 68
Operating Expenses	(1,839)	(1,173)	(1)	(31)	(53)
Operating Income (Loss)	(254)	69	(1)	9	15
Nonoperating Revenues (Expenses):					
Investment Income (Loss)	40	48			
Addition to Permanent Endowments		8			
Transfers From/(To) Primary Government and Component Units		(217)			
Change in Net Assets	(214)	(92)	(1)	9	15
Net Assets, Beginning of Year	2,668	2,204	22	83	105
Adjustments to Beginning Net Assets					
Adjusted Net Assets, Beginning of Year	2,668	2,204	22	83	105
Net Assets, End of Year	\$ 2,454	\$ 2,112	\$ 21	\$ 92	\$ 120

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

Direct Support Organizations (Continued)					
(In Thousands)					
	University of Florida Tissue Bank, Inc. 6-30-01	Florida Leadership and Education Foundation, Inc. 12-31-01	Treasure Coast Agricultural Research Foundation, Inc. 6-30-01	University of Florida Alumni Association, Inc. 6-30-01	Total Direct Support Organizations
CONDENSED STATEMENT OF NET ASSETS					
Assets:					
Due from Primary Government/Component Units	\$	\$ 1,322	\$	\$	\$ 61,893
Other Current Assets		551	43		224,908
Capital Assets, Net		18	6		88,748
Other Noncurrent Assets					864,045
Total Assets		1,891	49		1,239,594
Liabilities:					
Due to Primary Government/Component Units					61,803
Other Current Liabilities		247	13		89,267
Noncurrent Liabilities					59,162
Total Liabilities		247	13		210,232
Net Assets:					
Restricted		1,248			904,539
Unrestricted		378	30		82,848
Invested in Capital Assets, Net of Related Debt		18	6		41,975
Total Net Assets	\$	\$ 1,644	\$ 36	\$	\$ 1,029,362
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS					
Operating Revenues	\$	\$ 2,009	\$ 8	\$ 1,155	\$ 220,047
Operating Expenses		(1,912)	(36)	(2,952)	(195,165)
Operating Income (Loss)		97	(28)	(1,797)	24,882
Nonoperating Revenues (Expenses):					
Investment Income (Loss)		89	3		(44,199)
Addition to Permanent Endowments					45,790
Transfers From/(To) Primary Government and Component Units	(5,477)			1,797	(3,090)
Change in Net Assets	(5,477)	186	(25)		23,383
Net Assets, Beginning of Year	5,477	1,458	61		1,034,579
Adjustments to Beginning Net Assets					(28,600)
Adjusted Net Assets, Beginning of Year	5,477	1,458	61		1,005,979
Net Assets, End of Year	\$	\$ 1,644	\$ 36	\$	\$ 1,029,362

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

Health Science Center Affiliates
(In Thousands)

	Florida Clinical Practice Association, Inc. 6-30-01	University of Florida Jacksonville Physicians, Inc. 6-30-01	Faculty Associates, Inc. 6-30-01	Florida Health Professions Associations, Inc. 6-30-01
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Due from Primary Government/Component Units	\$ 7,564	\$ 1,758	\$ 1,055	\$ 968
Other Current Assets	37,800	27,446	3,503	2,219
Capital Assets, net	6,190	4,212		
Other Noncurrent Assets	34,066	118		1,428
Total Assets	85,620	33,534	4,558	4,615
Liabilities:				
Due to Primary Government/Component Units		679		
Other Current Liabilities	13,353	14,907	326	125
Noncurrent Liabilities	17,063	6,864	827	1,662
Total Liabilities	30,416	22,450	1,153	1,787
Net Assets:				
Restricted				
Unrestricted	49,013	14,419	3,405	2,828
Invested in Capital Assets, Net of Related Debt	6,191	(3,335)		
Total Net Assets	\$ 55,204	\$ 11,084	\$ 3,405	\$ 2,828
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS				
Operating Revenues	\$ 161,627	\$ 126,949	\$ 13,308	\$ 7,168
Operating Expenses	(177,613)	(115,443)	(14,534)	(7,116)
Operating Income (Loss)	(15,986)	11,506	(1,226)	52
Nonoperating Revenues (Expenses):				
Investment Income	2,069	232	45	195
Other	(1)	(378)	(31)	(90)
Transfers From/(To) Primary Government and Component Units	15,338	(9,162)	2,439	173
Change in Net Assets	1,420	2,198	1,227	330
Net Assets, Beginning of Year	53,784	8,886	2,178	2,498
Net Assets, End of Year	\$ 55,204	\$ 11,084	\$ 3,405	\$ 2,828

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

Health Science Center Affiliates (Continued) (In Thousands)				
	College of Nursing Faculty Practice Association, Inc. 6-30-01	College of Pharmacy Faculty Practice Association, Inc. 6-30-01	Florida Veterinary Medicine Faculty Association, Inc. 6-30-01	University of Florida Health Services, Inc. 3-31-01
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Due from Primary Government/Component Units	\$ 965	\$ 789	\$ 26	\$ 27
Other Current Assets	1,467	256	2,924	27
Capital Assets, net				
Other Noncurrent Assets				
Total Assets	<u>2,432</u>	<u>1,045</u>	<u>2,950</u>	<u>27</u>
Liabilities:				
Due to Primary Government/Component Units				
Other Current Liabilities	20	140	28	36
Noncurrent Liabilities				
Total Liabilities	<u>20</u>	<u>140</u>	<u>28</u>	<u>36</u>
Net Assets:				
Restricted				
Unrestricted	2,412	905	2,922	(9)
Invested in Capital Assets, Net of Related Debt				
Total Net Assets	<u>\$ 2,412</u>	<u>\$ 905</u>	<u>\$ 2,922</u>	<u>\$ (9)</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS				
Operating Revenues	\$ 768	\$ 175	\$ 6,934	\$
Operating Expenses	(509)	156	(4,104)	(12)
Operating Income (Loss)	259	331	2,830	(12)
Nonoperating Revenues (Expenses):				
Investment Income	113	28	92	3
Other				
Transfers From/(To) Primary Government and Component Units	116			
Change in Net Assets	488	359	2,922	(9)
Net Assets, Beginning of Year	1,924	546		
Net Assets, End of Year	<u>\$ 2,412</u>	<u>\$ 905</u>	<u>\$ 2,922</u>	<u>\$ (9)</u>

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

Health Science Center Affiliates (Continued)
(In Thousands)

	University of Florida Jacksonville Healthcare, Inc. 6-30-01	Faculty Clinic, Inc. 6-30-01	Jacksonville Health Education Programs, Inc. (Unaudited) 6-30-01	Total Health Science Center Affiliates
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Due from Primary Government/Component Units	\$ 142	\$ 2	\$	\$ 13,269
Other Current Assets	190	3,098	291	79,221
Capital Assets, net	3,130	5,379		18,911
Other Noncurrent Assets		589		36,201
Total Assets	3,462	9,068	291	147,602
Liabilities:				
Due to Primary Government/Component Units	1,758	42		2,479
Other Current Liabilities	1,217	316	2	30,470
Noncurrent Liabilities	118	7,300		33,834
Total Liabilities	3,093	7,658	2	66,783
Net Assets:				
Restricted				
Unrestricted	(2,615)	(3,969)	289	69,600
Invested in Capital Assets, Net of Related Debt	2,984	5,379		11,219
Total Net Assets	\$ 369	\$ 1,410	\$ 289	\$ 80,819
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS				
Operating Revenues	\$ 3,076	\$	\$ 131	\$ 320,136
Operating Expenses	(11,126)	(1,667)	(119)	(332,087)
Operating Income (Loss)	(8,050)	(1,667)	12	(11,951)
Nonoperating Revenues (Expenses):				
Investment Income		143	9	2,929
Other	(82)	(1)		(583)
Transfers From/(To) Primary Government and Component Units	8,132	1,681		18,717
Change in Net Assets		156	21	9,112
Net Assets, Beginning of Year	369	1,254	268	71,707
Net Assets, End of Year	\$ 369	\$ 1,410	\$ 289	\$ 80,819

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

Shands Teaching Hospital and Others (In Thousands)				
	Shands Teaching Hospital and Clinics, Inc. 6-30-01	Baby Gator Child Care Center, Inc. 6-30-01	University Village Apartments, Inc. 6-30-01	Total Shands Teaching Hospital and Others
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Due from Primary Government/Component Units	\$ 1,971	\$ 223	\$ 55	\$ 2,249
Other Current Assets	197,385	107	95	197,587
Capital Assets, net	387,788	41	1,205	389,034
Other Noncurrent Assets	224,357		987	225,344
Total Assets	811,501	371	2,342	814,214
Liabilities:				
Due to Primary Government/Component Units	4,873	11	154	5,038
Other Current Liabilities	102,104	57	172	102,333
Noncurrent Liabilities	331,761		1,152	332,913
Total Liabilities	438,738	68	1,478	440,284
Net Assets:				
Restricted	1,275			1,275
Unrestricted	264,864	262	864	265,990
Invested in Capital Assets, Net of Related Debt	106,624	41		106,665
Total Net Assets	\$ 372,763	\$ 303	\$ 864	\$ 373,930
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS				
Operating Revenues	\$ 672,664	\$ 581	\$ 1,007	\$ 674,252
Operating Expenses	(660,042)	(616)	(1,031)	(661,689)
Operating Income (Loss)	12,622	(35)	(24)	12,563
Nonoperating Revenues (Expenses):				
Investment Income	14,546	15	15	14,576
Addition to Permanent Endowments	100			100
Other	(11,920)			(11,920)
Change in Net Assets	15,348	(20)	(9)	15,319
Net Assets, Beginning of Year	357,415	323		357,738
Adjustments to Beginning Net Assets			873	873
Adjusted Net Assets, Beginning of Year	357,415	323	873	358,611
Net Assets, End of Year	\$ 372,763	\$ 303	\$ 864	\$ 373,930

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

22. SEGMENT INFORMATION

A segment is an identifiable activity (or grouping of activities) that has one or more bonds or other debt instruments outstanding with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required to be accounted for separately. The following financial information represents identifiable activities of the University for which one or more bonds or other debt instruments are outstanding. Transportation and Parking Services provides the University with safe and adequate parking facilities. Several parking garages have been constructed from the proceeds of revenue-backed debt instruments. The Division of Housing provides safe, affordable living space for students of the University of Florida. Several revenue bonds have been issued over the years to provide funding for the construction of facilities to house students of the University. A summary of the activity for these segments is presented as follows:

Condensed Statement of Net Assets		
	Transportation and Parking Services	Division of Housing
Assets		
Current Assets	\$ 5,003,340	\$ 10,098,949
Capital Assets, Net	34,668,963	61,221,109
Other Noncurrent Assets	401,279	16,361,534
Total Assets	<u>40,073,582</u>	<u>87,681,592</u>
Liabilities		
Current Liabilities	2,969,103	8,145,967
Noncurrent Liabilities	24,278,546	68,646,653
Total Liabilities	<u>27,247,649</u>	<u>76,792,620</u>
Net Assets		
Restricted	3,056,999	4,635,318
Unrestricted	1,013,268	5,971,238
Invested in Capital Assets, Net of Related Debt	8,755,666	282,416
Total Net Assets	<u><u>\$ 12,825,933</u></u>	<u><u>\$ 10,888,972</u></u>

UNIVERSITY OF FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
	Transportation and Parking Services	Division of Housing
Operating Revenues (Expenses):		
Operating Revenues	\$ 9,676,040	\$ 26,484,999
Depreciation Expense	(1,831,362)	(2,009,770)
Other Operating Expenses	(6,220,368)	(23,154,481)
Net Operating Income	<u>1,624,310</u>	<u>1,320,748</u>
Nonoperating Revenues (Expenses):		
Investment Income	198,430	1,845,910
Interest Expense	(1,289,148)	(3,697,447)
Other	(170,732)	(142,367)
Capital Related Expenditures		(1,009,645)
Transfers	822,728	853,267
Net Nonoperating Revenues (Expenses)	<u>(438,722)</u>	<u>(2,150,282)</u>
Change in Net Assets	1,185,588	(829,534)
Net Assets, Beginning of Year	<u>11,640,345</u>	<u>11,718,506</u>
Net Assets, End of Year	<u><u>\$ 12,825,933</u></u>	<u><u>\$ 10,888,972</u></u>

Condensed Statement of Cash Flows		
	Transportation and Parking Services	Division of Housing
Net Cash Provided (Used) by:		
Operating Activities	\$ 3,258,036	\$ 5,868,480
Noncapital Financing Activities	170,392	389,994
Capital and Related Financing Activities	(3,221,216)	(20,891,050)
Investing Activities	(481,893)	16,786,069
Net Increase (Decrease) in Cash and Cash Equivalents	(274,681)	2,153,493
Cash and Cash Equivalents, Beginning of Year	<u>578,878</u>	<u>7,522,923</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 304,197</u></u>	<u><u>\$ 9,676,416</u></u>

**UNIVERSITY OF FLORIDA RESEARCH
FOUNDATION, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
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**UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
OFFICERS AND DIRECTORS
GAINESVILLE, FLORIDA**

Officers and Board Members	Original Date of Service
Dr. Winfred M. Phillips, President	July 1999
Dr. Thomas Walsh, Director of Research	June 1987
Mr. John Kruczeck, Treasurer	December 1990
Mr. Frank P. Ward, Secretary	September 2001
Dr. Charles Young, Chairman of the Board	January 2000
Dr. David Colburn	November 1999
Mr. Samuel Goforth	December 1995
Dr. Neil Sullivan	August 2000
Dr. John Kraft	September 1999
Dr. Michael Martin	October 1998
Ms. Carolyn Roberts	September 1999
Mr. J. Edward Poppell	September 2000
Dr. Douglas Barrett	April 2002
Mr. Manuel A. Fernandez	September 2001
Dr. Pramod P. Khargonekar	July 2001

Finance Committee

Mr. John Kruczeck, Chairman
Dr. Winfred M. Phillips
Mr. Barry Diamond
Mr. J. Edward Poppell
Dr. Thomas Walsh, Ex-Officio
Dr. Barbara Wingo, Ex-Officio
Mr. Frank P. Ward, Ex-Officio

JAMES MOORE & CO., P.L.
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
University of Florida Research Foundation, Inc.:

We have audited the accompanying basic financial statements of the University of Florida Research Foundation, Inc. (the Research Foundation), a direct support organization and component unit (for accounting purposes only) of the University of Florida, as of and for the year ended June 30, 2003. These basic financial statements are the responsibility of the Research Foundation's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The basic financial statements of the Research Foundation as of June 30, 2002, were audited by other auditors whose report dated August 7, 2002, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the June 30, 2003 basic financial statements referred to above present fairly, in all material respects, the financial position of the Research Foundation as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 8, 2003, on our consideration of the Research Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

James Moore & Co.

Gainesville, Florida
August 8, 2003

**UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003 AND 2002**

This section of the University of Florida Research Foundation, Inc. (the Research Foundation), a component unit of the University of Florida for accounting purposes only, annual financial report presents our discussion and analysis of the Research Foundation's financial performance during the fiscal years ending on June 30, 2003 and June 30, 2002. Please read it in conjunction with the preceding Independent Auditor's Report and the Research Foundation's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Statement of Net Assets and Statements of Revenue, Expenses and Changes in Net Assets provide information about the activities of the Research Foundation and present a snapshot of the Research Foundation's financial position at year-end. The Statements of Cash Flows provide information regarding net cash generated by or used in various activities of the Research Foundation.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail data. These notes are an integral part of these financial statements and should be read as a part of the financial statements in order for the reader to have a clear understanding of the Research Foundation's activities and performance.

FINANCIAL ANALYSIS OF THE RESEARCH FOUNDATION

The following select financial information was derived from the Research Foundation's complete set of financial statements included in this report. It is presented to support management's analysis of financial position and results of operation that follow this information.

The Research Foundation's Net Assets

	<u>2003</u>	<u>2002</u>
Current Assets	\$ 58,564,065	\$ 57,006,741
Non-Current Assets	76,480,955	76,261,140
Total Assets	<u>\$135,045,020</u>	<u>\$133,267,881</u>
Current Liabilities	\$ 39,275,112	\$ 43,339,232
Long-Term Liabilities	-	-
Total Liabilities	<u>\$ 39,275,112</u>	<u>\$ 43,339,232</u>
Net Assets		
Invested in capital assets	\$ -	\$ -
Restricted	-	-
Unrestricted	95,769,908	89,928,649
Total Net Assets	<u>\$ 95,769,908</u>	<u>\$ 89,928,649</u>

**UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003 AND 2002**

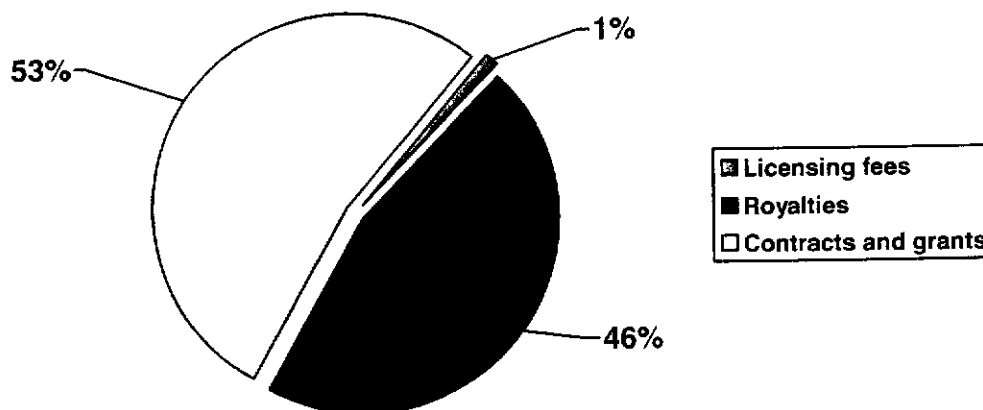
The Research Foundation's Activities and Changes in Net Assets

	<u>2003</u>	<u>2002</u>
Revenue		
Operating	\$ 75,115,418	\$ 62,203,839
Non-operating	9,577,319	20,520
Total revenues	<u>\$ 84,692,737</u>	<u>\$ 62,224,359</u>
Expenses		
Cost of licenses and grants	\$ (64,065,315)	\$ (49,850,139)
Operating	(14,786,163)	(45,911,501)
Total expenses	<u>\$ (78,851,478)</u>	<u>\$ (95,761,640)</u>
Changes in net assets	<u>\$ 5,841,259</u>	<u>\$ (33,537,281)</u>

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The University of Florida Research Foundation, Inc. (the Research Foundation) is considered a component unit of the University of Florida for accounting purposes. The Research Foundation is self-supporting, receiving no State support.

The Research Foundation attempts to operate on a financial breakeven basis generating revenue sufficient to cover operating costs. However, during the fiscal year ended June 30, 2002, over \$31 million was transferred to the University of Florida construction accounts on behalf of the Department of Orthopaedics and the College of Medicine for the building of a new Orthopaedics building and part of the new Genetics and Cancer building. All capital assets purchased by the Research Foundation are immediately donated to the University of Florida and the Research Foundation has no capital assets. Operating revenues were \$75,115,418 for the fiscal year ended June 30, 2003 and \$62,203,839 for the fiscal year ended June 30, 2002 generating a net increase (decrease) in net assets of \$5,841,259 and (\$33,537,281), respectively. A graphical representation of the Research Foundation's sources of operating revenues for the year ended June 30, 2003 is as follows:



**UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003 AND 2002**

OTHER MATTERS

The Research Foundation received approval from the Board of Regents to guarantee capital improvement revenue bonds not to exceed \$100 million for the purpose of constructing a Cancer Research Center Building and a Genetics Research Building. The bonds will be secured by a general obligation of the Research Foundation. At June 30, 2003, the Research Foundation was in the final stages of issuing \$35,000,000 in Tax-Free Municipal Bonds. This transaction was completed on August 26, 2003 and the entire proceeds will be used for the construction of the new University of Florida Cancer Research Center Building and a Genetics Research Building.

ECONOMIC OUTLOOK

The Research Foundation's economic outlook is closely related to the royalty income received. It is largely dependent upon ongoing royalty and licensing income, which is expected to remain fairly stable with moderate growth over the long term. For fiscal year 2003, the Research Foundation received an increase of 11.6% in royalty and licensing income. As for the short-term, fiscal year 2004 royalty and licensing income are running ahead of projections which should lead to flat or slightly increased budget for the Research Foundation.

CONTACTING MANAGEMENT

This financial narrative is designed to provide you with a general overview of the University of Florida Research Foundation's finances and to show accountability for the various revenues we receive. If you have questions about this report or need additional financial information, contact the Business Office at:

University of Florida Research Foundation
288 Grinter Hall
PO Box 115500
Gainesville, FL 32611-5500
(352) 392-5221

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
BALANCE SHEETS
JUNE 30, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 42,594,730	\$ 42,759,736
License fees, royalties and research commitments receivable	14,282,119	12,295,086
Patent and licensing costs receivable	899,886	638,684
Due from University of Florida	148,148	-
Accrued interest	639,182	864,741
Note receivable, net - current portion	-	448,494
Total current assets	<u>58,564,065</u>	<u>57,006,741</u>
Noncurrent assets		
Investments	72,904,488	72,133,167
Note receivable, net - long-term portion	<u>3,576,467</u>	<u>4,127,973</u>
Total noncurrent assets	<u>76,480,955</u>	<u>76,261,140</u>
Total Assets	<u><u>\$ 135,045,020</u></u>	<u><u>\$ 133,267,881</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable	\$ 47,707	\$ 55,434
Accrued patent and licensing costs	570,264	233,275
Inventors' allocation payable	5,836,406	4,908,161
University allocation payable:		
License fees and royalties payable	8,582,485	8,053,058
Indirect cost distributions payable	422,143	746,966
Deferred restricted revenues	23,812,055	29,332,977
Deferred restricted revenues - federal	4,052	9,361
Total liabilities - all current	<u>39,275,112</u>	<u>43,339,232</u>
Net assets		
Unrestricted	95,769,908	89,928,649
Total Liabilities and Net Assets	<u><u>\$ 135,045,020</u></u>	<u><u>\$ 133,267,881</u></u>

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

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

	2003			2002		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Operating revenues						
Licensing fees and options	\$ 853,880	\$ -	\$ 853,880	\$ 1,151,147	\$ -	\$ 1,151,147
Royalties	34,424,247	-	34,424,247	30,464,544	-	30,464,544
Contracts and grants	-	39,832,029	39,832,029	-	29,412,445	29,412,445
Federal grants	-	5,262	5,262	-	1,175,703	1,175,703
Total operating revenues	35,278,127	39,837,291	75,115,418	31,615,691	30,588,148	62,203,839
Costs of licenses and grants						
Inventors' allocations	12,202,539	-	12,202,539	10,626,134	-	10,626,134
Inventors' department allocation	9,369,608	-	9,369,608	8,276,354	-	8,276,354
Inventors' college allocations	84,789	-	84,789	72,086	-	72,086
Inventors' program allocations	100,942	-	100,942	89,476	-	89,476
President's Gatorade allocations	533,708	-	533,708	818,203	-	818,203
Patent and licensing	2,967,617	-	2,967,617	1,149,317	-	1,149,317
Contracts and grants	-	38,800,850	38,800,850	-	27,642,866	27,642,866
Federal grants	-	5,262	5,262	-	1,175,703	1,175,703
Total costs of licenses and grants	25,259,203	38,806,112	64,065,315	21,031,570	28,818,569	49,850,139
Net operating revenues	10,018,924	1,031,179	11,050,103	10,584,121	1,769,579	12,353,700
Operating expenses						
NFTIC/ENFC support	100,000	-	100,000	75,000	-	75,000
Research and development awards	9,479,344	-	9,479,344	11,542,196	-	11,542,196
Salary and benefits	470,796	-	470,796	420,116	-	420,116
Publications	193,096	-	193,096	119,977	-	119,977
Litigation	-	-	-	12,864	-	12,864
Technology license expense	1,512,741	-	1,512,741	1,382,898	-	1,382,898
Operating expenses	1,390,712	-	1,390,712	1,174,893	-	1,174,893
Orthopedics expenses/COM	439,474	-	439,474	24,975,951	-	24,975,951
College of medicine expenses	1,200,000	-	1,200,000	6,207,606	-	6,207,606
Total operating expenses	14,786,163	-	14,786,163	45,911,501	-	45,911,501
Operating income (loss)	(4,767,239)	1,031,179	(3,736,060)	(35,327,380)	1,769,579	(33,557,801)
Nonoperating revenues (expenses)						
Investment income (loss)	9,181,061	-	9,181,061	(373,064)	-	(373,064)
Management fees	396,258	-	396,258	393,584	-	393,584
Total nonoperating revenues (expenses)	9,577,319	-	9,577,319	20,520	-	20,520
Income (loss) before transfers	4,810,080	1,031,179	5,841,259	(35,306,860)	1,769,579	(33,537,281)
Transfers	1,031,179	(1,031,179)	-	1,769,579	(1,769,579)	-
Net change in net assets	5,841,259	-	5,841,259	(33,537,281)	-	(33,537,281)
Net assets, beginning of year	89,928,649	-	89,928,649	123,465,930	-	123,465,930
Net assets, end of year	\$ 95,769,908	\$ -	\$ 95,769,908	\$ 89,928,649	\$ -	\$ 89,928,649

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

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002
Increase (Decrease) in Cash and Cash Equivalents

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities		
Licensed products:		
Licensing fees	\$ 853,880	\$ 1,249,939
Royalties	32,437,214	30,006,334
Inventors' allocation payments	(11,274,294)	(10,444,497)
University allocation payments	(9,350,735)	(7,733,543)
Patent and licensing costs	(4,291,399)	(2,747,064)
Reimbursement of patent and licensing costs	1,399,569	1,257,053
Total licensed products	<u>9,774,235</u>	<u>11,588,222</u>
Grants:		
Receipts	34,311,060	32,781,131
Disbursements	(38,806,112)	(28,749,855)
Total grants, net	<u>(4,495,052)</u>	<u>4,031,276</u>
Gatorade allocations	(533,708)	(818,203)
Other disbursements	(13,813,688)	(44,945,676)
Net cash used in operating activities	<u>(9,068,213)</u>	<u>(30,144,381)</u>
Cash flows from noncapital financing		
Management fees	<u>396,258</u>	<u>393,584</u>
Cash flows from financing activities		
Note receivable payments	<u>-</u>	<u>223,533</u>
Cash flows from investing activities		
Purchases of investments	(67,993,178)	(55,733,015)
Proceeds from sale of investments	71,011,770	69,459,250
Investment income	5,488,357	1,400,762
Net cash provided by investing activities	<u>8,506,949</u>	<u>15,126,997</u>
Net decrease in cash and cash equivalents	(165,006)	(14,400,267)
Cash and cash equivalents, beginning of year	42,759,736	57,160,003
Cash and cash equivalents, end of year	<u>\$ 42,594,730</u>	<u>\$ 42,759,736</u>

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

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002
Increase (Decrease) in Cash and Cash Equivalents
(Continued)

	<u>2003</u>	<u>2002</u>
Reconciliation of operating loss to net cash		
used in operating activities:		
Operating loss	\$ (3,736,060)	\$(33,556,143)
Adjustments to reconcile operating loss to net cash		
used in operating activities:		
Loan impairment	1,128,350	1,000,000
Changes in assets - decrease (increase) and liabilities -		
increase (decrease):		
Due from University of Florida	(148,148)	-
License fees and royalties receivable	(1,987,033)	(361,076)
Patent and licensing costs receivable	(261,202)	(408,994)
Accounts payable	(7,727)	181,637
Miscellaneous payables	-	(34,175)
Accrued patent and licensing costs	336,989	-
Inventors' allocation payable	928,245	704,373
License fees and royalties payable	529,427	68,300
Indirect cost distributions payable	(324,823)	68,714
Deferred restricted revenues	(5,520,922)	3,378,165
Deferred restricted revenues - federal	(5,309)	(1,185,182)
Net cash used in operating activities	<u><u>\$ (9,068,213)</u></u>	<u><u>\$(30,144,381)</u></u>

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

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

(1) Summary of Significant Accounting Policies:

The following is a summary of the more significant accounting policies of University of Florida Research Foundation, Inc. (the Research Foundation), which affect significant elements of the accompanying basic financial statements:

(a) **Reporting Entity**—The Research Foundation is a direct support organization and component unit (for accounting purposes only) of the University of Florida (the University) as provided for under Section 1004.28, Florida Statutes. The Research Foundation was formed as a not-for-profit organization in August of 1986. The Research Foundation's purpose is to assist the University of Florida in the funding of research and development through research grants and other contractual arrangements, and in the commercialization of intellectual properties, which includes inventions, discoveries, processes and work products. Accordingly, a majority of its expenditures are made to the University.

When inventions and other intellectual property of the University are commercialized through the Research Foundation, the proceeds are distributed pursuant to the University of Florida's Intellectual Property Policy.

These financial statements are entirely those of the Research Foundation alone and, accordingly, are not intended to present the financial position or the results of operations of the University.

(b) **Basis of Accounting**—The financial statements of the Research Foundation are prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing accounting principles generally accepted in the United States of America for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The Research Foundation has elected to consistently not follow FASB pronouncements issued subsequent to November 30, 1989, as permitted under GASB Statement No. 20, as amended by GASB Statement No. 34.

In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The accompanying financial statements of the Research Foundation have been prepared in accordance with the provisions of this statement.

For financial reporting purposes, the Research Foundation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Research Foundation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

(1) **Summary of Significant Accounting Policies:** (Continued)

(c) **Fund Accounting**—To ensure observance of limitations and restrictions placed on the use of resources available to the Research Foundation, the accounts of the Research Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities and fund balances of the Research Foundation are reported in two self-balancing fund groups as follows:

Unrestricted Fund—This fund is used to account for resources that the Research Foundation must use only in accordance with its Articles of Incorporation, Bylaws, and actions of the Board of Directors.

Restricted Fund—This fund is used to account for resources that have been restricted by the donor or grantor for specific purposes. These funds are deemed to be earned when the Research Foundation has incurred expenditures in compliance with the specific restrictions. Funds received for which restricted expenditures have not yet been made are recorded on the balance sheets as deferred restricted revenues.

(d) **Cash and Cash Equivalents**—For purposes of the statements of cash flows, the Research Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(e) **Investments**—Investments are carried at fair value as determined by quoted market prices. Equity holdings for which there is no traded market price are carried at purchased cost.

(f) **Fair Value of Financial Instruments**—The Research Foundation did not hold any derivative instruments for trading purposes at June 30, 2003 and 2002, and does not invest in derivative instruments. The carrying amount of cash, receivables and payables approximates fair value.

(g) **Trade Receivables**—Trade receivables are recorded at net realizable value and are unsecured. It is the Research Foundation's policy to provide an allowance for trade receivables that are not expected to be collected. Trade receivables are periodically evaluated for collectibility based on past credit history with companies and their current financial condition. No allowance for doubtful accounts was deemed necessary for license fees, royalties, and research commitments receivable and patent and licensing costs receivable at June 30, 2003 and 2002. The Research Foundation has recorded an allowance for doubtful accounts of \$2,000,000 and \$1,000,000 at June 30, 2003 and 2002, respectively, related to the note receivable.

(h) **Patent and Licensing Costs**—The Research Foundation expenses patent and licensing costs as incurred. For the years ended June 30, 2003 and 2002, the Research Foundation incurred patent and licensing costs of \$4,367,186 and \$2,815,364, and received reimbursements of \$1,399,569 and \$1,666,047 for the net expense of \$2,967,617 and \$1,149,317.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

(1) **Summary of Significant Accounting Policies:** (Continued)

(i) **Donated Intellectual Property**—The Research Foundation receives donations of patents and other intellectual property. The Research Foundation has no cost basis for these assets and their fair value is not subject to reasonable estimations. Accordingly, the value of these assets are not reflected on the balance sheet.

(j) **Income Taxes**—The Research Foundation is generally exempt from Federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying financial statements.

(k) **Contract Services**—The Research Foundation is assisted by employees of the University. The Research Foundation reimburses the University based on a valuation that is determined by specific employees' time, pay rate and fringe benefits. The Research Foundation reimbursed the University \$1,983,537 and \$1,803,014 for such services during 2003 and 2002, respectively.

(l) **Classification of Revenues**—The Research Foundation classifies its revenues as operating or nonoperating according to the following criteria:

Operating Revenues—Include activities that have the characteristics of exchange transactions, such as royalty and licensing.

Nonoperating Revenues—Include activities that have characteristics of nonexchange transactions, such as investment income.

(m) **Accounting Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The determination of the adequacy of the allowance for the note receivable (Note 7) is based on estimates that are particularly susceptible to significant changes based on the borrower's financial position.

(2) **Cash and Investments:**

Cash and Cash Equivalents—Included in the Research Foundation's cash and cash equivalents were amounts on deposit with the Research Foundation's commercial bank, as well as amounts deposited with the University of Florida Foundation Investment Pool.

At June 30, 2003, the Research Foundation had deposits in excess of federal insurance limits, however, management does not consider this risk significant.

The amount included in the University of Florida Foundation's investment pool is classified as a cash equivalent since it can be withdrawn after 60 days. This investment provides the Research Foundation a higher return on investment than other alternatives with similar safety and liquidity characteristics.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

(2) Cash and Investments: (Continued)

Funds are invested in the following short-term investments. All monies are readily available for use by the Research Foundation. The following is a summary of the Research Foundation's cash and cash equivalents at June 30:

	<u>2003</u>	<u>2002</u>
Money Market Funds	\$ 151,950	\$ 610,832
University of Florida Foundation	42,442,780	42,148,904
Total cash and cash equivalents	<u>\$ 42,594,730</u>	<u>\$ 42,759,736</u>

Investments—The Research Foundation is authorized to invest in U.S. Government securities, pooled money market funds and mutual funds pursuant to its investment policy. Investments in securities are categorized in accordance with GASB Statement No. 31. Each category is a level of risk assumed by the Research Foundation. Category 1 includes investments that are registered or insured, for which the securities or collateral are held by the Research Foundation or by an agent in the Research Foundation's name. All investments at June 30, 2003 and 2002, were classified as Category 1.

Investments consist of the following at June 30:

	<u>2003</u>	<u>2002</u>
U.S. Government Agency Securities	\$ 52,520,109	\$ 50,134,710
Corporate Bonds and Notes	11,188,506	16,543,758
Equities	9,195,873	5,454,699
Total investments	<u>\$ 72,904,488</u>	<u>\$ 72,133,167</u>

(3) Related Parties:

University of Florida—The Research Foundation recognized inventing department, college and program allocations from license and royalty income of \$9,555,339 and \$8,437,916 for the fiscal years ended June 30, 2003 and 2002, respectively, of which \$8,582,485 and \$8,053,058 were payable at June 30, 2003 and 2002, respectively.

Equity Ownerships

The Research Foundation has acquired marketable equity positions in commercial enterprises as consideration for various license agreements. The Research Foundation has no cost basis for these positions and their fair value is not subject to reasonable estimations. Accordingly, the value of these investments are not reflected on the balance sheet.

Several of the positions have become actively traded equities on the over-the-counter market. At this time, when a fair value can be calculated, the Research Foundation records the equity on its balance sheet at the fair value and recognizes related income.

Additionally, the Research Foundation receives license fees and royalties in companies in which the Research Foundation has an equity position, as per the individual agreements, and monitors their ownership position in each of the companies.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

(4) Deferred Restricted Revenues and Deferred Licensed Research:

Changes in deferred restricted revenues consist of the following at June 30:

	<u>2003</u>	<u>2002</u>
Balances, beginning of year	\$ 29,342,338	\$ 27,149,355
Additions		
Contracts and grants	34,311,107	32,790,609
Federal contracts and grants	(47)	(9,479)
Total additions	<u>34,311,060</u>	<u>32,781,130</u>
Deductions		
Restricted expenditures – contracts and grants	38,800,850	27,642,865
Federal expenditures	5,262	1,175,703
Transfers to unrestricted fund	1,031,179	1,769,579
Total deductions	<u>(39,837,291)</u>	<u>(30,588,147)</u>
Balances, end of year	<u>\$ 23,816,107</u>	<u>\$ 29,342,338</u>
Shown on the Balance Sheets as:		
Deferred restricted revenues	\$ 23,812,055	\$ 29,332,977
Deferred restricted revenues – Federal	4,052	9,361
Total	<u>\$ 23,816,107</u>	<u>\$ 29,342,338</u>

All amounts of deferred restricted revenues are represented by Foundation holdings of cash and cash equivalents or investments.

Transfers to unrestricted funds represent overhead allowances provided for in contracts and grants. These amounts may be used to offset operating expenses or fund general research projects.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

(5) Unrestricted Net Assets:

Unrestricted net assets are classified as follows at June 30:

	<u>2003</u>	<u>2002</u>
Designated		
Gatorade Fund – This component represents funds that are discretionary to the Vice-President for Research and Dean of the Graduate School to support the research enterprise of the University. These funds arise by virtue of a stipulation and subsequent agreements relevant to the sale of Gatorade.	\$ 20,503,586	\$ 17,956,468
Building Fund – This component represents funds that have been designated for the construction of a building for the College of Medicine.	34,540,759	30,798,975
Total Designated	<u>55,044,345</u>	<u>48,755,443</u>
Undesignated		
This component represents funds that have not been designated for any purpose by the Board of Directors and are readily available for expenditure.	40,725,563	41,173,206
Total Unrestricted Net Assets	<u>\$ 95,769,908</u>	<u>\$ 89,928,649</u>

(6) Note Receivable:

During the year ended June 30, 2001, the Research Foundation received a note receivable for \$5,800,000 from a decertified direct support organization of the University. The principal amount of the note receivable was based upon an independent appraisal of the value of the direct support organization at the date of its decertification. During the year ended June 30, 2002, the Research Foundation received principal payments of \$223,533 on the note receivable. During the year ended June 30, 2003, no principal payments were received on the note receivable. Also, during the year ended June 30, 2003, the Board of Directors of the Research Foundation approved a modification of the repayment terms of the note receivable. As of June 30, 2003, the terms of the note receivable are as follows:

Original Principal	\$ 5,800,000
Date of Note	April 1, 2001
Term	8 years
Rate	Interest abated until January 2006, 7% annually thereafter
Payments	Interest quarterly, beginning in 2006; principal semiannually, beginning in 2005

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

(6) **Note Receivable:** (Continued)

Payments are due to the Research Foundation for the fiscal year end as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ —	\$ —	\$ —
2005	188,464	—	188,464
2006	411,190	329,444	740,634
2007	444,256	332,828	777,084
2008	726,932	291,836	1,018,768
2009	3,805,625	66,598	3,872,223
Total	<u>5,576,467</u>	<u>\$ 1,020,706</u>	<u>\$ 6,597,173</u>
(Allowance)	<u>2,000,000</u>		
Net of Allowances	<u>\$ 3,576,467</u>		

The note receivable is reflected in the financial statements as follows:

	<u>2003</u>	<u>2002</u>
Note receivable, net – current portion	\$ —	\$ 448,494
Note receivable, net – long term portion	<u>3,576,467</u>	<u>4,127,973</u>
Total, net of allowance	<u>\$ 3,576,467</u>	<u>\$ 4,576,467</u>

(7) **Commitments and Contingencies:**

(a) **Bonds**—The Research Foundation approved the issuance of Series 2003 capital improvement revenue bonds, not to exceed \$35 million for the purpose of financing a portion of two research buildings on campus. The bonds will be secured by a general obligation of Foundation revenues or assets earned by the Research Foundation.

At June 30, 2003, no action other than the request and approval for bonding authority and preliminary legal inquiries had been performed.

(b) **ChelaDerm**—During the year ended June 30, 2002, the Research Foundation entered into a joint agreement called ChelaDerm, Inc. with Procter & Gamble Company. Procter & Gamble Company issued an exclusive, non-royalty, license to ChelaDerm, Inc., a Delaware Corporation. The agreement allows the Research Foundation to purchase up to 10% of the ChelaDerm Corporation for \$1.5 million. During the year ended June 30, 2002, the Research Foundation paid \$750,000 of the \$1.5 million to ChelaDerm, Inc.

(c) **Other Commitments**—The Research Foundation has committed to provide additional support to the University in 2004 totaling approximately \$3.6 million for major equipment and building costs.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

(8) Equity Ownerships:

In addition to revenues received for licensing fees of \$853,880 in 2003 and \$1,151,147 in 2002, the Research Foundation has also acquired some marketable equity positions in commercial enterprises as consideration for license agreements. The Research Foundation has no cost basis in these investments, and their market value is not subject to reasonable estimations. Accordingly, the value of these investments is not reflected on the balance sheets.

The following table is a summary of the Research Foundation's ownership position at June 30, 2003:

Name	Number of Shares Owned
Abela Laser System, Inc.	10,000
Advanced Therapies, Inc. (Vectron Therapeutics)	583,821
Applied Genetic Technologies Corp. (AGTC)	1,627,500
ARMASI, Inc.	50
Cer-Burg Enterprises, Inc.	8
Civatec Medical Systems	50
Compucyte Corp.	20,000
Engivity, Inc.	68,182
Gemesis Corp.	514,599
GeneEx, Inc.	1,000,000
Gold Standard Multi-media	6,000
Group 206 Technologies, Inc.	18
GSSC, Inc.	10
Healthy Outcomes Technology	20
ICU Datasystems	282,287
Insect Biotechnology	100,000
Intelligenxia, Inc.	415,063
Key Medical Technology, Inc.	49,500
LightPath Technologies (formerly Geltech, Inc.)	1,911
Marcon Global Data Solutions	100
Nanotherapeutics (replaces Nanocoat)	35,000
NanoMedex, Inc.	44,750
Oracle Diagnostics (Beacon Diagnostics, Inc.)	239,940
PC-Age Systems, Inc.	20
Sabratek (Unitron)	3,973
Sinmat, Inc.	4,636
U.S. Biomaterials Corp.	28,571

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

(8) **Equity Ownerships:** (Continued)

Additionally, the Research Foundation has recorded the following equity interests as of June 30:

Name of Security	2003		2002	
	Number of Shares	Amount	Number of Shares	Amount
Regeneration Technologies, Inc.	572,725	\$ 7,559,970	772,725	\$ 4,667,259
Oragenics, Inc.	599,940	1,439,856	599,940	-
GloTech Industries, Inc.	200,000	142,000	200,000	-
Ixion, Inc.	18,672	37,440	18,672	37,440
Predation, Inc.	10,143	7,607	-	-
ChelaDerm, Inc.	11,000	9,000	11,000	750,000
Total equities		<u>\$ 9,195,873</u>		<u>\$ 5,454,699</u>

During the year ended June 30, 2003, Oragenics, Inc. (Oragenics) had its initial public offering on the Toronto Stock Exchange. The Research Foundation has no cost basis in its shares of Oragenics, and as Oragenics had no readily determinable market value prior to its initial public offering, the investment was not reflected in the financial statements of the Research Foundation prior to its initial public offering. The accompanying 2003 financial statements include investment income of \$1,439,856 related to the recording of the Research Foundation's ownership of Oragenics stock, based upon its market value at June 30, 2003. Of the Research Foundation's 599,940 shares of Oragenics stock, 539,946 of these shares are being held in an escrow account, as of June 30, 2003. Shares are scheduled to be released from this escrow account at a rate of 89,991 shares every six months, until all shares have been released from escrow. While shares are held in escrow, they may not be transferred or otherwise dealt, in accordance with the escrow agreement.

During the year ended June 30, 2003, GloTech Industries, Inc. (GloTech) reorganized as a public company. The Research Foundation has no cost basis in its shares of GloTech, and as GloTech had no readily determinable market value prior to its reorganization as a public company, the investment was not reflected in the financial statements of the Research Foundation prior to its reorganization as a public company. The accompanying 2003 financial statements include investment income of \$142,000 related to the recording of the Research Foundation's ownership of GloTech stock, based upon its market value at June 30, 2003.

During the year ended June 30, 2003, the Research Foundation recognized an impairment in its investment in ChelaDerm, Inc. (ChelaDerm) from its initial cost basis of \$750,000 to \$9,000, based upon the Research Foundation's determination of the net realizable value of its investment in ChelaDerm. ChelaDerm is not a publicly traded stock, and as such, has no readily determinable market value. The Research Foundation's investment in ChelaDerm was previously recorded at its cost basis, which is \$750,000. This impairment is included in "investment income (loss)" in the accompanying financial statements.

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 AND 2002

(9) Concentrations

During the years ended June 30, 2003 and 2002, the Research Foundation received approximately 84% and 88%, respectively, of its total licensing fees, options, and royalties from two companies.

(10) Risk Management

The Research Foundation is exposed to various risks of loss including general liability and property and casualty. Conventional and commercial insurance coverage has been purchased from various independent carriers to insure against such risks and minimize the Research Foundation's financial exposure to such risks.

The Research Foundation is not involved in any risk pools with other governmental entities.

JAMES MOORE & CO., P.L.
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

Board of Directors,
University of Florida Research Foundation, Inc.
Gainesville, Florida:

We have audited the financial statements of the University of Florida Research Foundation, Inc., a nonprofit organization (the Research Foundation) as of and for the year ended June 30, 2003, and have issued our report thereon dated August 8, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Research Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Research Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Audit Committee, Board of Directors, management, and applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

James Mason & Co.

August 8, 2003
Gainesville, Florida

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

**UNIVERSITY OF FLORIDA
RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
JUNE 30, 2002**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

**UNIVERSITY OF FLORIDA
RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
JUNE 30, 2002**

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**OFFICERS AND DIRECTORS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA**

Officers and Board Members	Original Date of Service
Dr. Winfred M. Phillips, President	July 1999
Dr. Thomas Walsh, Director of Research	June 1987
Mr. John Kruczek, Treasurer	December 1990
Mr. Frank P. Ward, Secretary	September 2001
Dr. Charles Young, Chairman of the Board	January 7, 2000
Dr. Winfred M. Phillips	July 1999
Dr. David Colburn	November 1999
Mr. Samuel Goforth	December 1995
Dr. Neil Sullivan	August 1, 2000
Dr. John Kraft	September 1999
Dr. Michael Martin	October 1998
Ms. Carolyn Roberts	September 1999
Mr. J. Edward Poppell	September 2000
Dr. Douglas Barrett	April 2002
Mr. Manuel A. Fernandez	September 2001
Dr. Pramod P. Khargonekar	July 2001

Finance Committee
Mr. John Kruczek, Chairman
Dr. Winfred M. Phillips
Mr. Barry Diamond
Mr. J. Edward Poppell
Dr. Thomas Walsh, Ex-Officio
Dr. Barbara Wingo, Ex-Officio
Mr. Frank P. Ward, Ex-Officio

INDEPENDENT AUDITORS' REPORT

Board of Directors
University of Florida Research Foundation, Inc.
Gainesville, Florida

We have audited the accompanying financial statements of the University of Florida Research Foundation, Inc. (the Foundation), a component unit of the University of Florida, as of and for the years ended June 30, 2002 and 2001. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1 to the financial statements, the Foundation adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements—and Management's Discussion and Analysis* and its subsequent amendments as of July 1, 2001. This results in a change in the format and content of the financial statements.

Management's discussion and analysis on pages 4 through 6, is not a required part of the basic financial statements, but is supplementary information required by GASB. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Certified Public Accountants

P.O. Box 23999 • 222 N.E. 1st Street • Gainesville, Florida 32602 • (352) 378-2461 • FAX (352) 378-2505
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762
1727 2nd Street • Sarasota, Florida 34236 • (941) 365-3774 • FAX (941) 365-0238

MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
University of Florida Research Foundation, Inc.
Gainesville, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

In accordance with *Government Auditing Standards*, we have also issued a report dated August 7, 2002, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the Foundation taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

August 7, 2002
Gainesville, Florida

Purvis, Gray and Company

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the University of Florida Research Foundation, Inc. (a component unit of the University of Florida) annual financial reports presents our discussion and analysis of UFRF's financial performance during the fiscal years ending on June 30, 2001 and June 30, 2002. Please read it in conjunction with the preceding Independent Auditor's Report and UFRF's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The Statement of Net Assets and Statements of Revenue, Expenses and Changes in Net Assets provide information about the activities of UFRF and present a longer view of UFRF's financial position. The Statements of Cash Flows provide information regarding net cash from (used in) various activities of UFRF.

The financial statements also include notes that explain some of the information in the financial statements and provide more detail data. These notes form an integral part of these financial statements and should be read as a part of the financial statements in order for the reader to have a clear understanding of UFRF's activities and performance.

FINANCIAL ANALYSIS OF UFRF

The following select financial information was derived from UFRF's complete set of financial statements included in this report. It is presented to support management's analysis of financial position and results of operation that follow this information.

UFRF's Net Assets

	Jun-02	Jun-01
Current Assets	\$57,006,741	\$71,017,369
Non-Current Assets	<u>\$76,261,140</u>	<u>\$92,605,961</u>
Total Assets	\$133,267,881	\$163,623,330
Current Liabilities	\$43,339,232	\$40,157,400
Long-Term Liabilities	<u>\$0</u>	<u>\$0</u>
Total Liabilities	\$43,339,232	\$40,157,400

Net Assets		
Invested in Capital		
Assets	\$0	\$0
Restricted	\$0	\$0
Unrestricted	<u>\$89,928,649</u>	<u>\$123,465,930</u>
Total Net Assets	\$89,928,649	\$123,465,930

UFRF's Activities

	Changes in Net Assets	
	Jun-02	Jun-01
Revenue		
Operating	\$62,203,839	\$61,804,937
Non-operating	<u>\$20,520</u>	<u>\$1,024,111</u>
Total Revenues	\$62,224,359	\$62,829,048
Expenses		
Cost License &		
Grants	(\$49,850,139)	(\$50,685,405)
Operating	(\$45,911,501)	(\$6,456,771)
Non-operating		
Total Expenses	(\$95,761,640)	(\$57,142,176)
Excess(deficiency)before special items	(\$33,537,281)	\$5,686,872
Special item - contributions	\$0	\$69,059,672
Change in net assets	<u>(\$33,537,281)</u>	<u>\$74,746,544</u>

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The University of Florida Research Foundation, Inc. (UFRF) is a component unit of the University of Florida. UFRF is self-supporting receiving no State support and as such charges a fee for all services it provides.

UFRF attempts to operate on a financial breakeven basis generating revenue sufficient to cover operating costs. All capital assets purchased by UFRF are

immediately donated to the University of Florida and UFRF has no capital assets. Operating revenues were \$62,203,839 for the fiscal year ended June 30, 2002 and \$61,804,937 for the fiscal year ended June 30, 2001 generating an operating profit/(loss) of (\$33,557,801) and \$4,662,761 respectively.

OTHER MATTERS

UFRF received approval from the Board of Regents to guarantee capital improvement revenue bonds not to exceed \$100 million for the purpose of constructing a Cancer Research Center Building and a Genetics Research Building. The bonds will be secured by a general obligation of UFRF. At June 30, 2002, no action other than the request and approval for bonding authority and preliminary legal inquiries had been performed.

During this period UFRF entered into a joint agreement called ChelaDerm, Inc. with Procter & Gamble Company. Procter & Gamble Company issued an Exclusive, non-royalty, License to ChelaDerm, Inc., a Delaware Corporation. The agreement allows UFRF to purchase up to 10% of the ChelaDerm Corporation for \$1.5 million. During this period, ending June 30, 2002, UFRF has sent \$750,000 of the \$1.5 million to ChelaDerm, Inc. Procter & Gamble Company retains 86% of the ChelaDerm stock.

ECONOMIC OUTLOOK

The University of Florida Research Foundation, Inc's economic outlook is closely related to the royalty income received. It is largely dependent upon ongoing royalty and licensing income, which is expected to remain fairly stable with moderate growth over the long term. For fiscal year 2002, UFRF received an increase of 12.2% in royalty and licensing income. As for the short-term, fiscal year 2002 royalty and licensing income are running ahead of projections which should lead to flat or slightly increased budgets for UFRF.

BALANCE SHEETS
JUNE 30, 2002 AND 2001
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA

ASSETS

	<u>2002</u>	<u>2001</u>
Current Assets		
Cash and Cash Equivalents	\$ 42,759,736	\$ 57,160,003
License Fees, Royalties and Research Commitments Receivable	12,295,086	11,934,010
Patent and Licensing Costs Receivable	638,684	229,690
Accounts Receivable	0	0
Accrued Interest	864,741	1,210,658
Note Receivable, Net - Current Portion	448,494	483,008
Total Current Assets	<u>57,006,741</u>	<u>71,017,369</u>
Noncurrent Assets		
Investments	72,133,167	87,288,969
Note Receivable, Net - Long-Term Portion	4,127,973	5,316,992
Total Noncurrent Assets	<u>76,261,140</u>	<u>92,605,961</u>
Total Assets	<u>133,267,881</u>	<u>163,623,330</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	55,434	89,609
Accrued Patent and Licensing Costs	233,275	164,975
Inventors' Allocation Payable	4,908,161	4,726,524
University Allocation Payable:		
License Fees and Royalties Payable	8,053,058	7,348,685
Indirect Cost Distributions Payable	746,966	678,252
Deferred Restricted Revenues	29,332,977	25,954,812
Deferred Restricted Revenues - Federal	9,361	1,194,543
Total Liabilities - All Current	<u>43,339,232</u>	<u>40,157,400</u>
Net Assets		
Unrestricted	<u>89,928,649</u>	<u>123,465,930</u>
Total Liabilities and Net Assets	<u>\$133,267,881</u>	<u>\$163,623,330</u>

See accompanying notes.

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA**

	2002			2001		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Operating Revenues						
Licensing Fees and Options	\$ 1,151,147	\$ 0	\$ 1,151,147	\$ 983,282	\$ 0	\$ 983,282
Royalties	30,464,544	0	30,464,544	27,744,323	0	27,744,323
Contracts and Grants	0	29,412,445	29,412,445	0	30,896,741	30,896,741
Federal Grants	0	1,175,703	1,175,703	0	2,180,591	2,180,591
Total Operating Revenues	31,615,691	30,588,148	62,203,839	28,727,605	33,077,332	61,804,937
Costs of Licenses and Grants						
Inventors' Allocations	10,626,134	0	10,626,134	9,817,608	0	9,817,608
Inventors' Department Allocations	8,276,354	0	8,276,354	7,623,945	0	7,623,945
Inventors' College Allocations	72,086	0	72,086	40,261	0	40,261
Inventors' Program Allocations	89,476	0	89,476	53,154	0	53,154
President's Gatorade Allocations	818,203	0	818,203	561,433	0	561,433
Patent and Licensing	1,149,317	0	1,149,317	1,117,661	0	1,117,661
Contracts and Grants	0	27,642,866	27,642,866	0	29,291,565	29,291,565
Federal Grants	0	1,175,703	1,175,703	0	2,179,778	2,179,778
(Total Costs of Licenses and Grants)	(21,031,570)	(28,818,569)	(49,850,139)	(19,214,062)	(31,471,343)	(50,685,405)
Net Operating Revenues	10,584,121	1,769,579	12,353,700	9,513,543	1,605,989	11,119,532
Operating Expenses						
NFTIC/ENFC Support	75,000	0	75,000	50,000	0	50,000
Research and Development Awards	11,542,196	0	11,542,196	3,988,536	0	3,988,536
Salary and Benefits	420,116	0	420,116	365,956	0	365,956
Publications	119,977	0	119,977	142,832	0	142,832
Litigation	12,864	0	12,864	100,687	0	100,687
Technology License Expense	1,382,898	0	1,382,898	1,261,737	0	1,261,737
Operating Expenses	1,174,893	0	1,174,893	140,956	0	140,956
Orthopedics Expenses/COM	24,975,951	0	24,975,951	406,067	0	406,067
College of Medicine Expenses	6,207,606	0	6,207,606	0	0	0
(Total Operating Expenses)	(45,911,501)	0	(45,911,501)	(6,456,771)	0	(6,456,771)
Operating Income (Loss)	(35,327,380)	1,769,579	(33,557,801)	3,056,772	1,605,989	4,662,761

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Concluded)

	2002			2001		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Nonoperating Revenues (Expenses)						
Investment Revenue	\$ (373,064)	\$ 0	\$ (373,064)	\$ 667,951	\$ 0	\$ 667,951
Management Fees	393,584	0	393,584	356,160	0	356,160
Total Nonoperating Revenues (Expenses)	<u>20,520</u>	<u>0</u>	<u>20,520</u>	<u>1,024,111</u>	<u>0</u>	<u>1,024,111</u>
Income (Loss) Before Contributions and Transfers	<u>(35,306,860)</u>	<u>1,769,579</u>	<u>(33,537,281)</u>	<u>4,080,883</u>	<u>1,605,989</u>	<u>5,686,872</u>
Contributions and Transfers						
Assets From Decertification	0	0	0	5,800,000	0	5,800,000
Contributed Stock	0	0	0	63,259,672	0	63,259,672
Transfers	1,769,579	(1,769,579)	0	1,605,989	(1,605,989)	0
Total Contributions and Transfers	<u>1,769,579</u>	<u>(1,769,579)</u>	<u>0</u>	<u>70,665,661</u>	<u>(1,605,989)</u>	<u>69,059,672</u>
Net Change in Net Assets	<u>(33,537,281)</u>	<u>0</u>	<u>(33,537,281)</u>	<u>74,746,544</u>	<u>0</u>	<u>74,746,544</u>
Net Assets, Beginning of Year	<u>123,465,930</u>	<u>0</u>	<u>123,465,930</u>	<u>48,719,386</u>	<u>0</u>	<u>48,719,386</u>
Net Assets, End of Year	<u>\$ 89,928,649</u>	<u>\$ 0</u>	<u>\$ 89,928,649</u>	<u>\$ 123,465,930</u>	<u>\$ 0</u>	<u>\$ 123,465,930</u>

See accompanying notes.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA**

	<u>2002</u>	<u>2001</u>
Cash Flows From Operating Activities		
Licensed Products:		
Licensing Fees	\$ 1,249,939	\$ 765,624
Royalties	30,006,334	26,120,233
Inventors' Allocation Payments	(10,444,497)	(9,193,506)
University Allocation Payments	(7,733,543)	(6,979,897)
Patent and Licensing Costs	(2,747,064)	(2,232,492)
Reimbursement of Patent and Licensing Costs	1,257,053	675,264
Total Licensed Products	<u>11,588,222</u>	<u>9,155,226</u>
Grants:		
Receipts	32,781,131	35,204,591
Disbursements	(28,749,855)	(31,361,583)
Total Grants, Net	<u>4,031,276</u>	<u>3,843,008</u>
Gatorade Allocations	(818,203)	(561,433)
Other Disbursements	(44,945,676)	(6,312,230)
Net Cash Provided By (Used In) Operating Activities	<u>(30,144,381)</u>	<u>6,124,571</u>
Cash Flows From Noncapital Financing		
Management Fees	<u>393,584</u>	<u>356,160</u>
Cash Flows From Financing Activities		
Note Receivable Payments	<u>223,533</u>	<u>0</u>
Cash Flows From Investing Activities		
Purchases of Marketable Securities	(55,733,015)	(64,026,912)
Proceeds From Sale of Marketable Securities	69,459,250	66,315,812
Investment Income (Loss)	1,400,762	(2,148,604)
Net Cash Provided By (Used In) Investing Activities	<u>15,126,997</u>	<u>140,296</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(14,400,267)	6,621,027
Cash and Cash Equivalents, Beginning of Year	<u>57,160,003</u>	<u>50,538,976</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 42,759,736</u></u>	<u><u>\$ 57,160,003</u></u>

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Concluded)

	<u>2002</u>	<u>2001</u>
Reconciliation of Operating Income (Loss) to Net		
<u>Cash Provided By (Used In) Operating Activities:</u>		
Operating Income (Loss)	\$ (33,556,143)	\$ 4,662,761
Adjustments to Reconcile Operating Income (Loss):		
Loan Impairment	1,000,000	0
Changes in Assets - Decrease (Increase) and		
Liabilities - Increase (Decrease):		
License Fees and Royalties Receivable	(361,076)	(1,841,749)
Patent and Licensing Costs Receivable	(408,994)	40,429
Inventors' Allocations Payable	181,637	624,102
University Allocations Payable	704,373	737,463
Miscellaneous Payables	(34,175)	43,855
Accrued Patent and Licensing Costs	68,300	(379,309)
Indirect Cost Distributions Payable	68,714	109,760
Deferred Restricted Revenues	3,378,165	4,073,200
Deferred Restricted Revenues - Federal	<u>(1,185,182)</u>	<u>(1,945,941)</u>
Net Cash Provided By (Used In) Operating Activities	<u><u>\$ (30,144,381)</u></u>	<u><u>\$ 6,124,571</u></u>

Noncash Disclosure Transactions

The Foundation received stock in 2001 valued at \$62,853,606, which is a noncash transaction. Any subsequent sales are recorded as cash transactions in the statements of cash flows. The Foundation received a \$5,800,000 note in 2001 from a decertification of another university direct support organization. This was recorded as contributed revenue and is a noncash transaction in 2001, while payments on the note in subsequent years are recorded as cash transactions in the statements of cash flows.

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The University of Florida Research Foundation, Inc. (the Foundation) is a direct support organization as provided for in Section 240.299, Florida Statutes, and Board of Regents Rule 6C-9.011 Florida Administrative Code and is considered a component unit of the University of Florida (the University). The Foundation was formed as a not-for-profit organization in August 1986 in the state of Florida. The Foundation's purpose is to assist the University of Florida in the funding of research and development through research grants and other contractual arrangements, and in the commercialization of intellectual properties which included inventions, discoveries, processes and work products. Accordingly, a majority of its expenditures are made to the University.

When inventions and other intellectual property of the University are commercialized through the Foundation, the proceeds are distributed pursuant to the University of Florida's Intellectual Property Policy.

GASB Statements No. 34 and No. 35

The financial statements of the Foundation have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The GASB is the standard-setting body for governmental accounting and financial reporting.

In June 1999, the GASB unanimously approved Statement No. 34, *Basic Financial Statements—and Management Discussion and Analysis—for State and Local Governments*. In November 1999, the GASB issued Statement No. 35, *Basic Financial Statements—and Management Discussion and Analysis—for Public Colleges and Universities*. These two statements provide for significant changes in financial reporting in the governmental sector. The Foundation implemented these two statements as of July 1, 2001 and restated the 2001 fiscal year to conform to the new reporting model.

Basis of Accounting

For financial reporting purposes, the Foundation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Foundation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

These financial statements are entirely those of the Foundation alone and, accordingly, are not intended to present the financial position or the results of operations of the University.

Financial Statement Classification

Pursuant to GASB Statement No. 20, the Foundation has elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations, issued after November 30, 1989, to its proprietary fund type activities.

NOTES TO FINANCIAL STATEMENTS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities and fund balances of the Foundation are reported in two self-balancing fund groups as follows:

- **Unrestricted Funds**, which represent resources that the Foundation must use only in accordance with its Articles of Incorporation, Bylaws, and actions of the Board of Directors.
- **Restricted Funds**, which represent resources that have been restricted by the donor or grantor for specific purposes. These funds are deemed to be earned when the Foundation has incurred expenditures in compliance with the specific restrictions. Funds received for which restricted expenditures have not yet been made are recorded on the balance sheets as deferred restricted revenues.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments

Investments are carried at fair value as determined by quoted market prices. Restricted equity holdings are carried at purchased cost if there is no traded market price.

Fair Value of Financial Instruments

The Foundation did not hold any derivative instruments for trading purposes at June 30, 2002 and 2001, and does not invest in derivative instruments. The carrying amount of cash, receivables and payables approximates fair value.

Accounts and Notes Receivable

Accounts and notes receivable are valued at net realizable value and are unsecured. It is the Foundation's policy to provide an allowance for accounts and notes receivable that are not expected to be collected. However, no allowance is deemed necessary at June 30, 2002 and 2001. License fees receivable that are not subject to reasonable estimation are accounted for

NOTES TO FINANCIAL STATEMENTS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounts and Notes Receivable (Concluded)

using the cost recovery method. Under this method, accounts receivable are recorded with an offsetting deferred revenue which is recognized when cash is received.

Patent and Licensing Costs

The Foundation expenses patent and licensing costs as incurred. For the years ended June 30, 2002 and 2001, the Foundation incurred patent and licensing costs of \$2,815,364 and \$1,792,925, and received reimbursements of \$1,666,047 and \$675,264 for the net expense of \$1,149,317 and \$1,117,661.

Donated Intellectual Property

The Foundation records donated patents and intellectual property with no traded value at zero.

Income Taxes

The Foundation has received tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. No provision for income tax expense or liability has been made since the Foundation has been granted tax-exempt status. However, informational returns (Forms 990) are filed on an annual basis with the Internal Revenue Service.

Contributed Services

The Foundation occupies office space of the University and is assisted by employees of the University. The Foundation reimburses the University based on a valuation that is determined by specific employees' time, pay rate and fringe benefits. The Foundation reimbursed the University for the Office of Technology Licensing and the Business Office \$1,803,014 and \$1,627,693 for 2002 and 2001, respectively.

Classification of Revenues

The Foundation classifies its revenues as operating or nonoperating according to the following criteria:

- **Operating Revenues:** Include activities that have the characteristics of exchange transactions, such as royalty and licensing.
- **Nonoperating Revenues:** Include activities that have characteristics of nonexchange transactions, such as investment income.

Revenue Recognition

Revenues are recognized in accordance with timing stipulated in license agreements. The Foundation must be able to, and be reasonably expected to, enforce payment of contract fees before receivables and revenues are recognized. Certain license fees are due from start-up

NOTES TO FINANCIAL STATEMENTS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Concluded)

Revenue Recognition (Concluded)

companies over an extended period of time. If collectibility is not subject to reasonable estimation due to the tenuous nature of start-up companies, the contractual amounts due are recorded as receivables with a related deferred revenue which is then recognized as income when cash is received.

Accounting Estimates

The preparation of financial statements in conformity with 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 statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior Year Reclassifications

Certain reclassifications on the prior year's financial statements have been made to conform to current year reporting.

Note 2 - Cash and Investments

Cash and Cash Equivalents

Included in the Foundation's cash and cash equivalents were amounts on deposit with the Foundation's commercial bank, as well as amounts deposited with the University of Florida Foundation Investment Pool.

At June 30, 2002, the Foundation had deposits in excess of federal insurance limits; however, management does not consider this risk significant.

The amount included in the University of Florida Foundation's investment pool is classified as a cash equivalent since it can be withdrawn after 60 days. This investment provides the Foundation a higher return on investment than other alternatives with similar safety and liquidity characteristics.

Funds are invested in the following short-term investments. All monies are readily available for use by the Foundation. The following is a summary of the Foundation's cash and cash equivalents at June 30:

	<u>2002</u>	<u>2001</u>
Money Market Funds	\$ 610,783	\$ 11,604,062
University of Florida Foundation	42,148,953	45,555,941
Total Cash and Cash Equivalents	<u>\$ 42,759,736</u>	<u>\$ 57,160,003</u>

NOTES TO FINANCIAL STATEMENTS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 2 - Cash and Investments (Concluded)

Investments

The Foundation is authorized to invest in U.S. Government securities, pooled money market funds and mutual funds pursuant to its investment policy. Investments in securities are categorized in accordance with GASB Statement No. 31. Each category is a level of risk assumed by the Foundation. Category 1 includes investments that are registered or insured, or which are held by the Foundation or by an agent in the Foundation's name. All investments at June 30, 2002 and 2001, were classified as Category 1.

Investments consist of the following at June 30:

	2002	2001
U.S. Government Agency Securities	\$ 50,134,710	\$ 32,641,308
Corporate Bonds and Notes	16,543,758	33,113,266
Equities	5,454,699	21,534,395
Total Investments	<u><u>\$ 72,133,167</u></u>	<u><u>\$ 87,288,969</u></u>

Note 3 - Related Parties

University of Florida

The Foundation recognized inventing department, college and program allocations from license and royalty income of \$8,437,916 and \$7,717,360 for the fiscal years ended June 30, 2002 and 2001, respectively, of which \$8,053,058 and \$7,348,685 were payable at June 30, 2002 and 2001, respectively.

Equity Ownerships

The Foundation has acquired marketable equity positions in commercial enterprises as consideration for various license agreements. The Foundation's cost for these positions is zero and the fair value is not subject to reasonable estimations. Accordingly, the value of these investments is not reflected on the balance sheet.

Several of the positions have become actively traded equities on the over-the-counter market. At this time, when a fair value can be calculated, the Foundation records the equity on its balance sheet at the fair value and recognizes related income.

Additionally, the Foundation receives license fees and royalties in companies in which the Foundation has an equity position, as per the individual agreements, and monitors their ownership position in each of the companies.

NOTES TO FINANCIAL STATEMENTS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 4 - Deferred Restricted Revenues and Deferred Licensed Research

Changes in deferred restricted revenues consist of the following at June 30:

	2002	2001
Balances, Beginning of Year	<u>\$ 27,149,355</u>	<u>\$ 25,022,096</u>
Additions		
Contracts and Grants	34,790,609	34,969,941
Federal Contracts and Grants	(9,479)	234,650
Total Additions	<u>34,781,130</u>	<u>35,204,591</u>
Deductions		
Restricted Expenditures - Contracts and Grants	29,642,865	29,291,565
Federal Expenditures	1,175,703	2,179,778
Transfers to Unrestricted Funds	1,769,579	1,605,989
(Total Deductions)	<u>(32,588,147)</u>	<u>(33,077,332)</u>
Balances, End of Year	<u><u>\$ 29,342,338</u></u>	<u><u>\$ 27,149,355</u></u>
Shown on the Balance Sheets As:		
Deferred Restricted Revenues	\$ 29,332,977	\$ 25,954,812
Deferred Restricted Revenues - Federal	9,361	1,194,543
Total	<u><u>\$ 29,342,338</u></u>	<u><u>\$ 27,149,355</u></u>

All amounts of deferred restricted revenues are represented by Foundation holdings of cash and cash equivalents or investments.

Transfers to unrestricted funds represent amounts provided for research grants and contracts. These amounts are overhead portions which may be spent at the discretion of the Foundation in support of research.

Note 5 - Unrestricted Net Assets

Unrestricted net assets are classified as follows at June 30:

NOTES TO FINANCIAL STATEMENTS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 5 - Unrestricted Net Assets

	<u>2002</u>	<u>2001</u>
Designated		
Gatorade Fund - This component represents funds that are discretionary to the Vice-President for Research and Dean of the Graduate School to support the research enterprise of the University. These funds arise by virtue of a stipulation and subsequent agreements relevant to the sale of Gatorade.	\$ 17,956,468	\$ 15,085,082
Building Fund - This component represents funds that have been designated for the construction of a building for the College of Medicine.	30,798,975	62,853,605
Total Designated	<u>48,755,443</u>	<u>77,938,687</u>
Undesignated		
This component represents funds that have not been designated for any purpose by the Board of Directors and is readily available for expenditure.	41,173,206	45,527,243
Total Unrestricted Net Assets	<u>\$ 89,928,649</u>	<u>\$ 123,465,930</u>

Note 6 - Regeneration Technologies, Inc. (RTI) Stock Holdings

At June 30, 2001, the Foundation held 600,000 shares of stock in RTI. In 2001, the Foundation received an additional 600,000 shares of stock in RTI as part of a decertification agreement between the Foundation and a former direct support organization of the University. During 2002 and 2001, the Foundation has sold shares from their investment portfolio.

Note 7 - Note Receivable

The Foundation received the assets of a decertified DSO. An independent appraisal was performed as part of the decertification process that placed the assets of the former direct support organization at \$5,800,000. The Foundation received a promissory note for the appraised value at the following terms:

Original Principal	\$5,800,000
Date of Note	April 1, 2001
Term	8 Years
Rate	7.0% Annually
Payments	Interest Quarterly, Principal Semiannually

NOTES TO FINANCIAL STATEMENTS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 7 - Note Receivable (Concluded)

Payments are due to the Foundation for the fiscal year end as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 545,250	\$ 371,728	\$ 916,978
2004	655,718	330,898	986,616
2005	788,328	279,356	1,067,684
2006	908,773	219,413	1,128,186
2007	935,986	154,850	1,090,836
2008	964,013	88,355	1,052,368
2009	778,399	30,014	808,413
Total	<u>5,576,467</u>	<u>\$ 1,474,614</u>	<u>\$ 7,051,081</u>
(Allowance)	(1,000,000)		
Net of Allowances	<u>\$ 4,576,467</u>		

Shown in the financial statements as:

	<u>2002</u>	<u>2001</u>
Note Receivable, Net - Current Portion	\$ 448,494	\$ 483,008
Note Receivable, Net - Long-Term Portion	4,127,973	5,316,992
Total, Net of Allowance	<u>\$ 4,576,467</u>	<u>\$ 5,800,000</u>

Note 8 - Commitments and Contingencies

Bonds

The Foundation received approval from the Board of Regents to guarantee capital improvement revenue bonds not to exceed \$100 million for the purpose of constructing two research buildings on campus. The bonds will be secured by a general obligation of Foundation revenues or assets earned by the Foundation.

At June 30, 2002, no action other than the request and approval for bonding authority and preliminary legal inquiries had been performed.

ChelaDerm

During this period, UFRF entered into a joint agreement called ChelaDerm, Inc. with Procter & Gamble Company. Procter & Gamble Company issued an exclusive, non-royalty, license to ChelaDerm, Inc., a Delaware Corporation. The agreement allows UFRF to purchase up to 10% of the ChelaDerm Corporation for \$1.5 million. During this period, ending June 30, 2002, UFRF has paid \$750,000 of the \$1.5 million to ChelaDerm, Inc. Procter & Gamble Company retains 86% of the ChelaDerm stock.

Other Commitments

The Foundation has committed to provide additional support to the University in 2003 totalling approximately \$3.8 million for major equipment and building costs.

NOTES TO FINANCIAL STATEMENTS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 9 - Spanish Telescope

The Foundation has entered into an agreement with a Spanish company to purchase 5% of the annual time available on a telescope being built in the Canary Islands. The University has paid \$2 million to the Foundation through a purchase order agreement and the Foundation paid \$3 million for a total of \$5 million purchase price. The \$3 million is included in the 2002 research and development awards expense.

Note 10 - Equity Ownerships

In addition to revenues received for licensing fees of \$1,151,147 in 2002 and \$966,282 in 2001, the Foundation has also acquired some marketable equity positions in commercial enterprises as consideration for license agreements. The Foundation's cost is zero; accordingly, the value of these investments is not reflected on the balance sheets and market value is not subject to reasonable estimations.

The following table an analysis of transactions between the Foundation and the commercial enterprises, and the Foundation's ownership position at June 30, 2002:

<u>Name</u>	<u>Number of Shares Owned</u>	<u>Equity Share</u>	<u>Transactions</u>
Abela Laser System, Inc.	10,000	10%	The Foundation has signed a license agreement. As consideration, Abela Laser Systems, Inc. issued the Foundation 10,000 shares of stock in 1992. The company closed operations in November 2001.
Advanced Therapies, Inc.(Vectron Therapeutics)	583,821	7%	In 1993, the Foundation received \$22,193 in consideration for a signed license agreement and 333 shares of stock. In 1995, the Foundation received an additional 27,468 shares. In 1996, there was a 20-to-1 stock split, totalling 556,020 shares issued to the Foundation. The Foundation recognized \$15,000 in royalties in 2002 and \$10,000 in 2001.

NOTES TO FINANCIAL STATEMENTS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 10 - Equity Ownerships (Continued)

<u>Name</u>	<u>Number of Shares Owned</u>	<u>Equity Share</u>	<u>Transactions</u>
Applied Genetic Technologies Corp. (AGTC)	1,612,500	15%	The Foundation signed six license agreements in September 2001. Along with licenses issued, the Foundation received 1,612,500 shares of stock.
ARMASI, Inc.	50	10%	The Foundation recognized \$2,500 and \$2,800 in royalties in 2002 and 2001, respectively.
Cer-Burg Enterprises, Inc.	8	4%	The Foundation has a signed license agreement and is a limited partner. Royalties of \$155,442 and \$140,307 were recognized in 2002 and 2001, of which \$25,000 and \$25,000, respectively, were accrued.
Compucyte Corp.	20,000	.75%	The Foundation has a signed license agreement. In 1998, the Foundation recognized \$10,000 in licensing fees and received 20,000 shares of stock.
GelTech, Inc.	39,299	.62%	The Foundation received 7,299 shares of stock in 1992. In 1996, \$20,000 was received and an additional 32,000 shares of stock were issued as settlement of past debt. The Foundation recognized \$0 in royalties in 2002 and 2001.
Gemesis Corp.	514,599	6%	During 1998, the Foundation received 200,000 shares of Gemesis Corporation stock in exchange for a license agreement and 100,000 shares in exchange for a research grant of \$50,000 to the University project leader. In October 2000, an additional 214,559 shares were issued per a modification to the research grant.

NOTES TO FINANCIAL STATEMENTS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 10 - Equity Ownerships (Continued)

<u>Name</u>	<u>Number of Shares Owned</u>	<u>Equity Share</u>	<u>Transactions</u>
Gold Standard Multi-media	6,000	.24%	The Foundation received 6,000 shares of stock in 1999. The shares received were in consideration for termination agreements for the Radiologic Anatomy and the Human Histology license agreements.
Group 206 Technologies	18	5%	The Foundation recognized no royalties in 2002 or 2001. The license agreement with Group 206 Technologies was terminated October 1998.
GSSC, Inc.	5	5%	The Foundation recognized \$0 royalties in 2002 and \$222 in 2001.
Healthy Outcomes Technology	20	20%	The Foundation signed a license agreement in January 2000. The Foundation received 20 shares of stock and royalties in the amount of \$0 in 2002 and 2001.
Insect Biotechnology	20,000	.1%	The Foundation has signed a license agreement. In 1998, the Foundation received 20,000 shares of stock in consideration for the license issue fee. The Foundation recognized \$5,000 in license maintenance fees in both 2002 and 2001.
Key Medical Technology, Inc.	49,500		The Foundation signed a license agreement in August 1998. In April 2002, an equity agreement was signed in consideration for patent fees.

NOTES TO FINANCIAL STATEMENTS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 10 - Equity Ownerships (Continued)

<u>Name</u>	<u>Number of Shares Owned</u>	<u>Equity Share</u>	<u>Transactions</u>
Marcon Global Data Solutions	100	10 %	The Foundation has a license agreement. In 1998, the Foundation received 100 shares of stock in consideration for the license issue fee. The Foundation recognized \$20,000 royalties in 2002 and \$7,140 in royalties in 2001.
Nanocoat	20,000	7.8 %	The Foundation has a signed license agreement. In 2001, the Foundation received 20,000 shares of stock in consideration for the license issue fee.
Oracle Diagnostice (Beacon Diagnostics, Inc.)	239,940	1.23 %	In 1994, the Foundation received a total of 239,940 shares of stock as payment for an accrued license fee.
Oragenics, Inc.	599,940	6.36 %	The Foundation has a signed license agreement. In 1999, the Foundation received 5,555 shares of stock in consideration for the license issue fee.
PC-Age Systems, Inc.	20	10 %	The Foundation recognized no royalties in 2002 and 2001.
Sabrateck (Unitron)	3,973	.04 %	During 1997, the Foundation accepted stock in exchange for a research agreement. At the end of 1997, an agreement was in process in which shares of Unitron stock were exchanged for shares of Sabratek stock.

NOTES TO FINANCIAL STATEMENTS
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Concluded)

Note 10 - Equity Ownerships (Concluded)

<u>Name</u>	<u>Number of Shares Owned</u>	<u>Equity Share</u>	<u>Transactions</u>
U.S. Biomaterials Corp.	28,571	.30%	The Foundation has a signed license agreement. In 1999, the Foundation received 28,571 shares of stock in consideration for a \$100,000 sublicense fee. The Foundation recognized \$35,429 in royalties in 2002 and \$37,483 in 2001.

Additionally, the Foundation has recorded the following equity interests as of June 30:

<u>Name of Security</u>	<u>2002</u>		<u>2001</u>	
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>
Regeneration Technologies Inc.	772,725	\$ 4,667,259	2,254,725	\$ 19,841,580
Genzyme, Inc. (Merged with Stock Formally Held as GelTex)	0	0	34,850	1,655,375
Ixion, Inc.	18,672	37,440	18,672	37,440
Chela Derm, Inc.	11,000	750,000	0	0
Total Equities		<u><u>\$ 5,454,699</u></u>		<u><u>\$ 21,534,395</u></u>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA**

<u>Federal Grantors Direct From Federal Agencies/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Department of Veteran Affairs		
Cooperative Studies Program:		
Passed Through National Heart, Lung and Blood Institute	93.953	\$ 1,175,703
Passed Through Brain Institute (1)		<u>0</u>
Total Department of Veteran Affairs		<u><u>\$ 1,175,703</u></u>

(1) Major program as defined by Office of Management and Budget, Circular A-133.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB CIRCULAR A-133
JUNE 30, 2002
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA**

1. Summary of Audit Results

I. Type of Audit Report Issued on Financial Statements

Unqualified Opinion

II. Reportable Conditions in Internal Control

The audit disclosed no reportable conditions in internal control.

III. Noncompliance Material to Auditee Financial Statements

Audit disclosed no material instances of noncompliance.

IV. Reportable Conditions and/or Material Weaknesses in Internal Control Over Major Programs

Audit disclosed no instances of reportable conditions in internal control over major programs or reportable conditions which were material weaknesses in internal control over major programs

V. Type of Audit Report Issued on Compliance With Requirements Applicable to Major Programs

Unqualified Opinion

VI. Audit Findings Relative to Section .510(a) of OMB Circular A-133

The audit disclosed no findings required to be reported under Section .510(a) of OMB Circular A-133

VII. Major Federal Programs

University of Florida Brain Institute

VIII. Dollar Threshold Used to Distinguish Between Type A and Type B Programs

\$300,000

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS IN
ACCORDANCE WITH OMB CIRCULAR A-133
JUNE 30, 2002
UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.
GAINESVILLE, FLORIDA
(Concluded)**

1. **Summary of Audit Results (Concluded)**

IX. **Auditee Qualification as Low-Risk Auditee**

The auditee qualifies as a low-risk auditee per criteria set forth in Section .530 of OMB Circular A-133

2. **Findings Related to the Financial Statements Required to be Reported Under GAGAS**

The audit disclosed no findings which are required to be reported under GAGAS.

3. **Findings and Questioned Costs For Federal Awards Required to be Reported Under Section .510(a) of OMB Circular A-133**

The audit disclosed no findings which are required to be reported under Section .510(a) of OMB Circular A-133

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*,
ISSUED BY THE COMPTROLLER GENERAL OF THE
UNITED STATES; AND THE PROVISIONS OF OFFICE OF
MANAGEMENT AND BUDGET (OMB) CIRCULAR A-133**

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

Board of Directors
University of Florida Research Foundation, Inc.
Gainesville, Florida

We have audited the financial statements of the University of Florida Research Foundation, Inc., a nonprofit organization (the Foundation) as of and for the year ended June 30, 2002, and have issued our report thereon dated August 7, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
University of Florida Research Foundation, Inc.
Gainesville, Florida

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Concluded)**

This report is intended solely for the information and use of the Audit Committee, Board of Directors, management, and applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

August 7, 2002
Gainesville, Florida

Purvis, Gray and Company

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Board of Directors
University of Florida Research Foundation, Inc.
Gainesville, Florida

Compliance

We have audited the compliance of the University of Florida Research Foundation, Inc. (the Foundation) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The Foundation's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Certified Public Accountants

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Board of Directors
University of Florida Research Foundation, Inc.
Gainesville, Florida

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133
(Concluded)**

Internal Control Over Compliance

The management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Audit Committee, Board of Directors, management, and applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

August 7, 2002
Gainesville, Florida

Purvis, Gray and Company

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APPENDIX C

Trust Indenture, First Supplemental Trust Indenture and Continuing Disclosure Agreement

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TRUST INDENTURE

between

UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.

and

**BANK ONE, NATIONAL ASSOCIATION
as Trustee**

Dated as of August 1, 2003

**Relating to
\$35,000,000
Capital Improvement Revenue Bonds, Series 2003**

**TRUST INDENTURE
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TRUST INDENTURE

THIS TRUST INDENTURE dated as of August 1, 2003, is between **UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.** (the "Issuer"), and **BANK ONE, NATIONAL ASSOCIATION**, as trustee, a national banking association duly qualified to accept and administer the trusts created hereby (the "Trustee").

The Issuer and the Trustee, for the benefit of the other and for the benefit of the holders of the Issuer's Bonds issued pursuant to this Indenture, agree as follows:

ARTICLE I

Section 1.01 Representations of Issuer

1. The Issuer is a Florida not for profit corporation certified by The University of Florida Board of Trustees (the "University Board") as a "University Direct Support Organization," as defined in Section 1004.28, Florida Statutes, as amended, that is organized and operated exclusively for the benefit of the University of Florida (the "University").

2. The Issuer is authorized under Chapter 1004, Part II, and Chapter 1010, Part IV, Florida Statutes, as amended, to issue revenue bonds to finance capital projects to provide facilities necessary and desirable to serve the needs and purposes of the University.

3. The University Board requested the Issuer to issue its Capital Improvement Revenue Bonds, Series 2003 (the "Series 2003 Bonds"), in an aggregate principal amount of thirty-five million dollars (\$35,000,000), in one or more installments, to (a) finance or reimburse a portion of the capital expenditures paid or to be paid by the Issuer for the construction of an approximately 283,206 gross square foot genetics and cancer research facility (the "Project"), all as more particularly described in Exhibit B hereto and (b) pay the costs of issuance of the Series 2003 Bonds. The Project will be constructed and operated by the University and will be owned by the State of Florida.

4. The University Board approved and the State Board of Education (the "State Board") of the State of Florida and the Board of Governors (the "Board of Governors") of the State of Florida authorized the issuance of the Series 2003 Bonds to finance the Project by resolutions adopted on March 28, 2003, June 17, 2003 and July 23, 2003, respectively.

5. The Issuer has determined to issue the Series 2003 Bonds and to enter into this Indenture to secure payment of the Series 2003 Bonds.

6. Concurrently with the issuance of the Series 2003 Bonds, the Issuer will deliver to the Trustee an irrevocable, direct-pay letter of credit dated the date of issuance of the Series 2003 Bonds in an amount sufficient to secure the principal or portion of the purchase price corresponding to the principal of and up to thirty-five (35) days' interest on the Series 2003 Bonds. The letter of credit shall

be issued pursuant to a Letter of Credit and Reimbursement Agreement, dated as of August 1, 2003 (the "Credit Facility Agreement"), between the Issuer and Wachovia Bank, National Association, as credit facility provider (the "Bank").

7. The Issuer has, in all respects, duly and validly authorized the creation, execution and delivery of this Indenture and the creation, execution and issuance of the Series 2003 Bonds, subject to the terms hereof pursuant to a resolution adopted by the Issuer on April 18, 2003.

8. The Issuer has full power and authority to issue and sell the Series 2003 Bonds to finance the Project as herein provided, and the Issuer has taken all action required by law to authorize its officers to execute, acknowledge and deliver this Indenture and to issue the Series 2003 Bonds.

9. All things necessary to make the Series 2003 Bonds, when authenticated by the Trustee and issued as provided in this Indenture, the valid, binding and legal obligations of the Issuer, and to make this Indenture a valid agreement of the Issuer, enforceable in accordance with its terms, have been done and performed.

Section 1.02 Granting Clause and Acceptance by Trustee:

To secure the payment of the Bonds and, as herein provided, payment of all obligations to the Credit Facility Provider (hereinafter defined), the Issuer assigns to the Trustee and grants to the Trustee a security interest in all rights, title and interests of the Issuer in and to (a) except as specifically provided herein, all moneys and securities held from time to time by the Trustee under this Indenture, except those moneys and securities held from time to time in the Rebate Account (hereinafter defined), (b) the Credit Facility (hereinafter defined), and (c) to the extent not included in the foregoing, the products and proceeds of any and all of the foregoing described collateral (collectively, the "Trust Estate"), in each case, for the equal and proportionate benefit of all holders of the Bonds without priority or distinction as to lien or otherwise of any Bonds over any other Bonds and for the benefit of the Credit Facility Provider, except as otherwise provided in this Indenture. The Trustee shall hold all funds drawn under the Credit Facility solely for the benefit of the holders of the Bonds. If moneys are provided under the Credit Facility to make payments required hereunder, the Credit Facility Provider shall be subrogated to the rights of the Issuer and the holders of the Bonds secured by such Credit Facility, and the Trustee shall apply the interests granted hereunder to secure payment of all obligations of the Issuer under the Credit Facility Agreement (hereinafter defined) until the same have been satisfied as provided in Section 7.04 hereof.

THE BONDS CONSTITUTE GENERAL OBLIGATIONS OF THE ISSUER AND ADDITIONALLY ARE PAYABLE FROM AND SECURED BY THE PLEDGE OF AND LIEN UPON THE TRUST ESTATE AS PROVIDED HEREIN. NO COVENANT OR AGREEMENT IN THE BONDS, THIS INDENTURE OR THE OTHER BOND DOCUMENTS AND NO OBLIGATION THEREIN OR HEREIN IMPOSED UPON THE ISSUER SHALL CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE UNIVERSITY, THE UNIVERSITY BOARD, THE BOARD OF GOVERNORS, THE STATE BOARD, THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION

THEREOF, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF. THE ISSUER HAS NO TAXING POWER.

The Trustee hereby duly accepts the trusts created by this Indenture and as evidence of such has joined in the execution hereof.

Section 1.03 Definitions:

For all purposes of this Indenture, unless the context requires otherwise, the following terms shall have the following meanings:

"Accrued Interest Account" shall mean the special account created and designated in the Sinking Fund by the provisions of Section 5.02 hereof.

"Act of Bankruptcy" shall mean the filing of a petition in bankruptcy (or other commencement of a bankruptcy or similar proceeding) by or against the Issuer, the University or the University Board under any applicable bankruptcy, insolvency, reorganization or similar law now or hereafter in effect. If any such petition has been dismissed and the dismissal is final and not subject to appeal at the relevant time, the filing will not be considered to have occurred.

"Alternate Credit Facility" shall mean any letter of credit, bond insurance policy and standby bond purchase agreement, guaranty, line of credit, surety bond or similar credit facility meeting the requirements of, and delivered to the Trustee in accordance with Article V hereof.

"Amortization Requirements" for the Bonds shall mean the amount established with respect to payment of Term Bonds that is required to be paid into the Redemption Account in each Bond Year. The aggregate amount of such Amortization Requirements (including the amount payable at maturity) for the Term Bonds of each series of Bonds shall be equal to the principal amount of such Term Bonds and the due dates for Amortization Requirements for any Term Bonds shall begin in the Bond Year and shall end with the Bond Year in which such Bonds mature.

"Available Moneys" shall mean (i) moneys drawn under the Credit Facility; (ii) moneys deposited directly by the Issuer with the Trustee, which moneys have been on deposit in the Sinking Fund and held by the Trustee for at least 365 days during which no Act of Bankruptcy shall have occurred; (iii) the proceeds of the sale of refunding obligations or other moneys, if, in the opinion of an attorney or firm of attorneys nationally recognized as experienced in bankruptcy matters acceptable to the Issuer, the Credit Facility Provider, and the Trustee, and the form of which is acceptable to the Rating Agency, the application of such proceeds or other moneys shall not constitute a voidable preference in the event of the occurrence of an Act of Bankruptcy; or (iv) the proceeds from investment of moneys qualifying as Available Moneys under clause (i), (ii) or (iii) above. Notwithstanding the foregoing, when used with respect to the payment of the Pledged Bonds, the term "Available Moneys" shall not include moneys drawn under the Credit Facility.

"Bank" shall mean Wachovia Bank, National Association, a national banking association organized under the laws of the United States of America, its successors and assigns.

"Bankruptcy Law" shall mean Title 11 of the United States Code or any similar federal, state or foreign law for the relief of debtors.

"Bond Documents" shall mean the Bonds, the Credit Facility, the Credit Facility Agreement, and this Indenture.

"Bond Service Account" shall mean the special account created and designated in the Sinking Fund by the provisions of Section 5.02 hereof.

"Bond Year" shall mean so long as the Bonds are Outstanding, each year commencing on September 2 and ending on September 1.

"Bonds" shall mean the Series 2003 Bonds issued pursuant to this Indenture. The term "Bond" shall refer to the beneficial interests therein as shown on the records of the Depository.

"Book-Entry Form" or "Book-Entry System" shall mean the system maintained by the Depository described in Section 2.02 hereof.

"Business Day" shall mean any day except (a) a Saturday or Sunday, (b) a day on which the Depository is closed or (c) a day on which the designated corporate trust office of the Trustee or the office of the Credit Facility Provider at which demands may be made for payment on the Credit Facility is or are lawfully closed.

"Certificate of Completion" shall mean the certificate setting forth the date of completion of the Project given by the Issuer to the Trustee and the Credit Facility Provider pursuant to Section 5.01 hereof.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the treasury regulations promulgated under it and its predecessors.

"Completion Date" shall mean the date of completion of the Project as set forth in the Certificate of Completion.

"Commercial Paper Rate" shall mean, when used with respect to any particular Bond, the interest rate determined for each Commercial Paper Rate Period applicable thereto pursuant to Section 3.05 hereof.

"Commercial Paper Rate Conversion Date" shall mean the date on which the Bonds are converted to bear interest at Commercial Paper Rates pursuant to Section 3.06 hereof.

"Commercial Paper Rate Period" shall mean each period during which a Bond bears interest at a Commercial Paper Rate established pursuant to Section 3.05 hereof.

"Conversion Date" shall mean (a) when used with respect to Bonds bearing interest at the Fixed Rate, the date on which the Bonds are converted to bear interest at the Fixed Rate pursuant to Section 3.07 hereof; (b) when used with respect to Bonds bearing interest at a Variable Rate, the date on which the Bonds are converted to bear interest at the new Variable Rate pursuant to Section 3.03 hereof; and (c) the Commercial Paper Rate Conversion Date.

"Cost," when used in connection with the Project, shall be deemed to include, (a) expenditures or obligations incurred for the acquisition of real property, for the acquisition and installation of equipment, and for labor, materials, supplies and other expenses paid or payable to contractors, builders and materialmen in connection with the acquisition, construction and erection of such Project and all other expenses incidental thereto; (b) interest on the Bonds prior to and during construction; (c) the cost of contract bonds and of insurance of all kinds that may be required or necessary during the course of construction that is not paid by the contractor or contractors or otherwise provided for; (d) the expenses of test borings, surveys, test and pilot operations, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction, as well as for the performance of all other duties required by or consequent upon the proper erection, construction or installation of such Project; (e) compensation and expenses of the Issuer, the Trustee, the Paying Agent, the Credit Facility Provider and the Remarketing Agent; legal, accounting, financial and printing expenses, fees and all other expenses incurred in connection with the issuance of the Bonds or the transactions financed thereby; (f) all other costs required to be paid under the terms of any contract or contracts for the construction of such Project; (g) payment of the taxes, documentary stamp taxes, intangible taxes, assessments and other charges, if any, to the extent such taxes, assessments and charges may be properly chargeable to such Project's capital account or reimbursement thereof; (h) payment of expenses incurred in enforcing any remedy against any contractor or subcontractor in respect of any default under a contract relating to such Project; and (i) any sums required to reimburse advances made for any of the above items, or for any other costs incurred and for work done by any of them that are properly chargeable to such Project.

"Credit Facility" shall mean an irrevocable, direct-pay letter of credit issued by a Credit Facility Provider to the Trustee that satisfies the requirements of Section 5.07 hereof. The term Credit Facility includes any extension, amendment, or renewal of a Credit Facility and may include, in combination with a letter of credit or liquidity facility, a municipal bond insurance policy or surety bond.

"Credit Facility Account" shall mean the special account created and designated in the Sinking Fund by the provisions of Section 5.02 hereof.

"Credit Facility Agreement" shall mean (a) the Letter of Credit and Reimbursement Agreement of even date herewith between the Issuer and the Credit Facility Provider, as it may be amended from

time to time in accordance with its terms, and (b) any other agreement with a Credit Facility Provider pursuant to which a Credit Facility is issued.

"Credit Facility Provider" shall mean the Bank or any other provider of a Credit Facility.

"Credit Facility Provider Account" shall mean the special account created and established in Section 4.01(d)(iii) hereof.

"CUSIP" shall mean the Committee on Uniform Security Identification Procedures, established to develop a uniform method of identifying securities.

"Daily Rate" shall mean the interest rate to be determined for the Bonds on each Business Day pursuant to Section 3.02(c) hereof.

"Daily Rate Conversion Date" shall mean the day on which the Bonds are converted to bear interest at a Daily Rate pursuant to Section 3.03 hereof.

"Daily Rate Period" shall mean the period during which the Bonds bear interest at a Daily Rate pursuant to Section 3.02(c) hereof.

"Delivery Office of Trustee" shall mean Bank One, National Association, 10151 Deerwood Park Boulevard, Building 200, Suite 250, Jacksonville, Florida 32256, Attention: Corporate Trust Department, or such other office as may be designated in writing by the Trustee to the Issuer, the Credit Facility Provider and the Remarketing Agent.

"Depository" shall mean any depository that is a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, operating and maintaining, with its Participants or otherwise, a Book-Entry System to record ownership of beneficial interests in the Bonds, and to effect transfers of the Bonds, in Book-Entry Form, and includes and means, initially, The Depository Trust Company (a limited purpose trust company), New York, New York.

"Determination of Taxability" shall mean a determination that the interest income on any of the Bonds is not excluded from gross income under Section 103 of the Code, which determination shall be deemed to have been made upon the first to occur of the following:

A. the date on which any change in law or regulation becomes effective, or on which the Internal Revenue Service issues any private ruling or technical advice, with or to the effect that the interest income on any of the Bonds is not excluded from gross income; or

B. the date on which the Issuer shall receive notice from the Trustee in writing that the Trustee has been advised by any person acting on behalf of a present or former beneficial owner

that the Internal Revenue Service has issued a thirty (30) day letter to such beneficial owner which asserts that the interest on the Bonds is not excluded from gross income.

"Event of Default" shall mean a default as described in Section 8.01 hereof.

"FAST" shall mean the DTC Fast Automated Securities Transfer system for the delivery and deposit of securities through electronic computerized balancing between the Trustee, as transfer agent, and DTC.

"Federal Securities" shall mean direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Fitch" shall mean Fitch, Inc., d/b/a Fitch Ratings and its successors and assigns.

"Fixed Rate" shall mean the rate at which the Bonds shall bear interest from and including the conversion to a Fixed Rate to the maturity date pursuant to Section 3.07 hereof.

"Fixed Rate Conversion Date" shall mean the date on which the Bonds are converted to bear interest at the Fixed Rate pursuant to Section 3.07 hereof.

"Fixed Rate Period" shall mean the period during which the Bonds bear interest at the Fixed Rate pursuant to Section 3.07 hereof.

"Indenture" shall mean this Trust Indenture, as amended or supplemented from time to time in accordance with its terms.

"Insider" shall mean any (i) director of the Issuer; (ii) officer of the Issuer, the University or the University Board; (iii) person in control of the Issuer, the University or the University Board; (iv) partnership in which the Issuer, the University or the University Board is a general partner; (v) relative of a director, officer or person in control of the Issuer, the University or the University Board; or (vi) any general partner of the Issuer, the University or the University Board. This definition shall be interpreted to correspond with the definition of "Insider" as it appears in 11 United States Code, Section 101(31) as may, from time to time, be amended, interpreted, or renumbered.

"Interest Payment Date" shall mean (a) when used with respect to Bonds bearing interest at the Daily or Weekly Rate, the first Business Day of each calendar month for interest accrued up to but not including such date; (b) when used with respect to Bonds bearing interest at the Multiannual Rate, the first Business Day of the sixth calendar month following the month in which the Multiannual Rate Conversion Date occurs and thereafter on the first Business Day of each sixth month and each Multiannual Rate Adjustment Date for interest accrued up to, but not including such date; (c) when used with respect to Bonds bearing interest at a Commercial Paper Rate, the first Business Day following the last day of each Commercial Paper Rate Period applicable thereto; and (d) when used with respect to Bonds bearing interest at the Fixed Rate, each March 1 and September 1.

"Issuer" shall mean the entity identified, as such, in the heading of this Indenture and any successor to its functions.

"Issuer Representative" shall mean a person at the time designated to act on behalf of the Issuer by a written certificate furnished to the Trustee and the Credit Facility Provider containing the person's specimen signature and signed on behalf of the Issuer by any of its officers. The certificate may designate an alternate or alternates.

"Maximum Rate" shall mean the lower of (a) the maximum rate permitted by Florida law or (b) when a Credit Facility secures the Bonds, the rate used to determine the interest component of the amount available to be drawn under the Credit Facility.

"Moody's" shall mean Moody's Investors Service and its successors and assigns.

"Multiannual Rate" shall mean the interest rate to be determined for the Bonds for a term of one or more years pursuant to Section 3.02(e) hereof.

"Multiannual Rate Adjustment Date" shall mean, as to Bonds that bear interest at a Multiannual Rate, the Business Day immediately succeeding the last day of a Multiannual Rate Period.

"Multiannual Rate Conversion Date" shall mean the day on which the Bonds are converted to bear interest at a Multiannual Rate pursuant to Section 3.03 hereof.

"Multiannual Rate Period" shall mean each period during which the Bonds bear interest at a Multiannual Rate.

"Opinion of Counsel" shall mean a written opinion of counsel acceptable to the Trustee, the Issuer and the Credit Facility Provider.

"Opinion of Tax Counsel" shall mean an Opinion of Counsel by counsel nationally recognized as being experienced in matters relating to the exclusion from gross income for federal income tax purposes of interest on obligations issued by states and their political subdivisions.

"Outstanding," when used with reference to the "Bonds," or "Bonds Outstanding" shall mean all Bonds that have been authenticated and delivered by the Trustee under this Indenture, except the following:

(a) Bonds, or portions thereof, canceled or purchased by the Trustee for cancellation. Bonds purchased by the Issuer in lieu of redemption under Article IV will continue to be Outstanding until the Issuer directs the Trustee to cancel them.

(b) Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Trustee.

(c) Bonds deemed paid pursuant to Section 7.01 hereof.

(d) Bonds deemed purchased pursuant to Section 4.01 hereof, regardless of whether such Bonds have been delivered, for which sufficient moneys, including interest accrued to the due date, are held by the Trustee.

"Owners" shall mean the Depository and not the owners of beneficial interests in the Bonds.

"Participant" shall mean one of the entities that is a member of the Depository and deposits securities, directly or indirectly, in the Book-Entry System.

"Paying Agent" shall mean the Trustee or any successor Paying Agent under this Indenture.

"Person" shall mean an individual, a corporation, a limited liability company, a general or limited partnership, an association, a joint stock company, a trust, any unincorporated organization, a governmental body or a political subdivision, a municipal corporation, public corporation or any other group or organization of individuals.

"Pledge Agreement" shall mean any agreement between the Issuer and a Credit Facility Provider relating to the Bonds held for the benefit of such Credit Facility Provider, relating to the Bonds.

"Pledged Bonds" shall mean Bonds held by the Depository for the account of the Credit Facility Provider pursuant to the Pledge Agreement.

"Project" shall mean the financing or reimbursement of a portion of the capital expenditures paid or to be paid, in whole or in part, from the proceeds of the Series 2003 Bonds for the construction of a genetics and cancer research facility, as described in Exhibit B hereto, or any substitutes or replacements thereof as provided in Exhibit B hereto. The Project may be modified from time to time; provided that no modification shall be made that significantly alters the nature thereof absent the written consent of the Credit Facility Provider, and an Opinion of Tax Counsel that such modification will not adversely affect the exclusion of interest on the Bonds from gross income, for federal income tax purposes. Without limiting the foregoing, the term "Project" shall include all buildings, components of buildings, storm drainage, water systems, sewer systems, electrical systems, gas systems and other utilities, equipment and landscaping, located within or without the boundaries of the campus of the University and serving such genetics and cancer research facility.

"Project Fund" shall mean the trust fund created and established by the provisions of Section 5.01(a)(iii) hereof.

"Qualified Investments" shall mean the following obligations and any other obligations previously approved in writing by the Credit Facility Provider:

(a) U.S. Government Obligations;

(b) the following debt securities of the following agencies or instrumentalities of the United States of America if at all times the full faith and credit of the United States of America is pledged to the full and timely payment of all interest and principal thereof:

- (i) all direct or fully guaranteed obligations of the United States Treasury;
- (ii) certificates of beneficial ownership of the Farmers Home Administration;
- (iii) participation certificates of the General Services Administration;
- (iv) obligations of the United States Maritime Administration guaranteed under Title XI of the United States Code;
- (v) guaranteed participation certificates and guaranteed pool certificates of the Small Business Administration;
- (vi) mortgaged-backed securities and participation certificates guaranteed by the Government National Mortgage Association;
- (vii) local authority bonds guaranteed by the United States Department of Housing and Urban Development; and
- (viii) guaranteed transit bonds of the Washington Metropolitan Transit Authority;

(c) the following obligations of the following agencies or instrumentalities of the United States of America:

- (i) participation certificates and debt obligations of the Federal Home Loan Mortgage Corporation;
- (ii) consolidated debt obligations, and obligations secured by a letter of credit, of the Federal Home Loan Banks; and
- (iii) debt obligations and mortgaged-backed securities of the Federal National Mortgage Association that have not had the interest

portion thereof severed therefrom;

(d) debentures of the Federal Housing Administration;

(e) obligations of any corporation organized under the laws of any state of the United States of America or under the laws of any other nation, payable in the United States of America, expressed to mature not later than ninety-two (92) days following the date of issuance thereof and rated in the highest investment rating category by Moody's;

(f) interest bearing demand or time deposits issued by state banks or trust companies, savings and loan associations, federal savings banks or national banking associations, in each case the deposits of which are insured by the Bank Insurance Fund ("BIF") or the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC") or any successors thereto and which deposits either:

(i) are at all time fully insured by BIF or SAIF; or

(ii) mature no later than 366 days from the date of investment therein and are obligations of banks whose short term debt obligations are rated not less than "P-1" by Moody's;

(g) Repurchase Agreements;

(h) Pre-Refunded Municipal Obligations;

(i) shares of mutual funds which invest in obligations described in paragraphs (a) through (h) above, the shares of which mutual funds are at all times rated "Aaa" by Moody's or "AAA" by S&P including any mutual fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (a) the Trustee or an affiliate of the Trustee receives fees from such funds for services rendered, (b) the Trustee charges and collects fees for services rendered pursuant to the Indenture, which fees are, separate from the fees received from such funds, and (c) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates.

Obligations listed in paragraphs (a), (b) and (c) above that are in book-entry form must be held in a trust account with the Federal Reserve Bank or with a clearing corporation or chain of clearing corporations which has an account with the Federal Reserve Bank.

In the event any moneys held by the Trustee under the Indenture are invested in shares of a mutual fund described in paragraph (i) above, the Issuer shall provide to the Credit Facility Provider on the first Business Day of each April, a certification that such mutual fund is then rated "Aaa" by Moody's or "AAA" by S&P. Upon receipt of notice that such mutual fund is no longer rated "Aaa" by Moody's

or "AAA" by S&P and written direction of the Issuer, the Trustee shall immediately withdraw all funds invested therein and invest such funds in other Qualified Investments.

"Rate Period" shall mean the period during which a particular rate of interest determined for the Bonds is to remain in effect pursuant to Article III hereof.

"Rating Agency" shall mean Moody's, S&P or Fitch, whichever one or more thereof then rates the Bonds, and their respective successors and assigns, provided such corporation is maintaining a rating on the Bonds. If any such corporation ceases to act as a securities rating agency, the Issuer may, with the approval of the Remarketing Agent and the Credit Facility Provider, appoint any nationally recognized securities rating agency as a replacement.

"Rating Category" shall mean a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

"Rebate Account" shall mean the trust account created and established by the provisions of Section 5.05 hereof.

"Record Date" shall mean the close of business on (a) the day (whether or not a Business Day) immediately preceding the Interest Payment Date in the case of Bonds bearing interest at Commercial Paper, Weekly or Daily Rates; (b) the fifteenth (15th) day (whether or not a Business Day) of the month immediately preceding the Interest Payment Date in the case of Bonds bearing interest at a Multiannual Rate or at the Fixed Rate; or (c) the Business Day immediately preceding each Conversion Date.

"Redemption Account" shall mean the special account created and designated in the Sinking Fund by the provisions of Section 5.02 hereof.

"Remarketing Agent" shall mean a remarketing agent acting as such under a Remarketing Agreement. The Remarketing Agent must be a Participant in the Book-Entry System with respect to the Bonds.

"Remarketing Agreement" shall mean any remarketing agreement by and between the Issuer and the Remarketing Agent relating to the remarketing of Bonds issued under this Indenture, including any amendments thereof or supplements thereto.

"Repurchase Agreement" shall mean an agreement for the repurchase of debt obligations approved in writing by the Credit Facility Provider and described in one of the following three categories:

(a) repurchase agreements entered into with any financial institution whose debt obligations or commercial paper are rated "AAA" or "A-1+," respectively, by S&P covering debt obligations of such institution; or

(b) repurchase agreements entered into with any corporation or other entity which is subject to the jurisdiction of the courts of the United States of America under any Bankruptcy Law covering U.S. Government Obligations provided that:

(i) the term of any such agreement is less than 12 months or is expressed to terminate on demand;

(ii) the Trustee or a third party acting solely as agent for the Trustee at all times has possession of the U.S. Government Obligations which are the subject of such repurchase agreement, free and clear of the claims of third parties; and

(iii) at all times such U.S. Government Obligations are maintained at quarter-annual valuation levels not less than the following percentages of the amount of such repurchase agreement determined in accordance with the following schedule:

MATURITY OF U.S. GOVERNMENT OBLIGATIONS FROM DATE OF VALUATION	VALUE OF U.S. GOVERNMENT OBLIGATIONS AS A PERCENTAGE OF AMOUNT OF REPURCHASE AGREEMENT
Less than one year	108%
Greater than one year but less than five years	125%
Greater than five years but less than ten years	135%
Greater than ten years but less than 15 years	140%
Greater than 15 years but less than 30 years	150%

(c) repurchase agreements entered into with any financial institution insured by the Federal Deposit Insurance Corporation or subject to the jurisdiction of the Securities Investors Protection Corporation covering U.S. Government Obligations in which the Trustee has a perfected first prior security interest provided that the conditions set forth in clauses (ii) and (iii) of the preceding paragraph (b) are met and that, in the case of a financial institution subject to the jurisdiction of the Securities Investors Protection Corporation, such U.S. Government Obligations have not been acquired pursuant to a repurchase agreement or reverse repurchase agreement.

Prior to investing in any Repurchase Agreement the Issuer shall deliver to the Credit Facility Provider: (i) an opinion of Bond Counsel to the effect that such Repurchase Agreement is a legal

investment for Bond proceeds and (ii) a certificate of the Issuer to the effect that such Repurchase Agreement has been obtained at market rates then prevailing for such obligations. In addition, the Issuer shall, on the first Business Day of April of each year, deliver to any Credit Facility Provider insuring the Bonds in question a certificate to the effect that all Repurchase Agreements invested in by the Trustee on such date continue to meet the criteria therefor specified above and, if at any time any Repurchase Agreement does not meet such criteria, the Issuer shall either (1) take steps satisfactory to the Credit Facility Provider to insure that the Repurchase Agreement meets such criteria or (2) forthwith liquidate such Repurchase Agreement and invest the proceeds from such sale in other Qualified Investments. No amendment may be made to the documentation of any Repurchase Agreement without the prior written consent of the Credit Facility Provider.

“Required Purchase Date” shall mean (a) each Variable or Fixed Rate Conversion Date and Multiannual Rate Adjustment Date, as more fully described in Sections 3.09 and 3.10 hereof, (b) the Business Day following the last day of each Commercial Paper Rate Period, as more fully described in Section 3.08 and (c) the 5th day prior to the expiration of the Credit Facility, all as more fully described in Section 3.11 hereof and; (d) the effective date of a substitute Credit Facility.

“Responsible Officer” shall mean any officer or assistant officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

“Rule” shall mean Rule 15c2-12 of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended.

“S&P” shall mean Standard & Poor's, a division of The McGraw-Hill Companies, Inc., a New York corporation and its successors and assigns.

“Series 2003 Bonds” shall mean the Capital Improvement Revenue Bonds, Series 2003 described in Section 2.01 hereof.

“Sinking Fund” shall mean the trust fund created and established pursuant to Section 5.02 hereof.

“Special Tender Option” shall mean the right of an Owner of Bonds bearing interest at a Multiannual Rate to tender the Bonds upon substitution of a Credit Facility with an Alternate Credit Facility as described in Section 3.11 hereof.

“State” shall mean the State of Florida.

“Supplemental Indenture” shall mean any amendment or supplement to this Indenture becoming effective in accordance with the terms hereof.

“Tax-Exempt Organization” shall mean a Person organized under the laws of the United States of America or any state thereof that is an organization described in Section 501(c)(3) of the Code, that

is exempt from federal income taxes under Section 501(a) of the Code, and that is not a "private foundation" within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Term Bonds" shall mean the Bonds of a series all of which are stated to mature on one date and which are subject to mandatory redemption from Amortization Requirements deposited in the Redemption Account.

"Trust Estate" shall mean all revenues and assets granted or hereafter granted to the Trustee hereunder for the benefit of the Owners and Credit Facility Provider.

"Trustee" shall mean the entity named as such in the heading of this Indenture until a successor replaces it and after that means the successor.

"U.S. Government Obligations" shall mean the following obligations and any other obligations previously approved in writing by the Credit Facility Provider:

- (a) direct obligations of the United States for which its full faith and credit are pledged;

- (b) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States, the payment of which is unconditionally guaranteed as to full and timely payment as a full faith and credit obligation of the United States; and

- (c) specified portions (such as principal or interest) of obligations described in clause (a) above that have been stripped by an agency of the United States of America. Except for purposes of Article VII hereof, mutual funds shall qualify as U.S. Government Obligations so long as such mutual funds are rated in the highest Rating Category of the Rating Agency.

"University" shall mean the University of Florida.

"University Board" shall mean The University of Florida Board of Trustees.

"Variable Rate" shall mean, as the context requires, the Daily, Weekly or Multiannual Rate applicable to Bonds.

"Variable Rate Conversion Date" shall mean the day on which the Bonds are converted to bear interest at a Variable Rate pursuant to Section 3.03 hereof.

"Variable Rate Period" shall mean each period during which the Bonds bear interest at a specific Variable Rate pursuant to Section 3.02 hereof.

“Weekly Rate” shall mean the interest rate to be determined for the Bonds for each Weekly Rate Period pursuant to Section 3.02(d) hereof.

"Weekly Rate Conversion Date" shall mean the day on which the Bonds are converted to bear interest at a Weekly Rate pursuant to Section 3.03 hereof.

“Weekly Rate Period” shall mean each period during which the Bonds bear interest at a Weekly Rate pursuant to Section 3.02(d) hereof.

Except where indicated, references to Articles and Sections are to the Articles and Sections of this Indenture.

Section 1.04 Use of Words and Phrases. "Herein," "hereby," "hereunder," "hereof," "hereinbefore," "hereinafter" and other equivalent words refer to this Indenture as a whole and not solely to the particular portion thereof in which any such word is used. Unless the context dictates otherwise, all definitions set forth in Section 1.03 hereof are meant to include both singular and plural usages. Whenever used herein, any pronoun shall be deemed to include both singular and plural and to cover all genders.

Section 1.05 Date of Indenture. The date of this Indenture is intended as and for a date for the convenient identification of this Indenture and is not intended to indicate that the Bonds were executed, delivered or issued on said date or that this instrument was executed and delivered on said date.

ARTICLE II THE BONDS

Section 2.01 Issuance of Bonds; Form; Dating; Cusip Numbers

(a) This Indenture secures an issue of the Bonds of the Issuer to be issued as hereinafter provided, and creates a continuing pledge as provided by this Indenture to secure the full and final payment of the principal or purchase price of, redemption premium, if any, and interest on all of the Bonds as the same shall become due and payable. The Bonds shall be dated the date of their initial delivery and shall be substantially in the form of Exhibit A hereto. The Bonds may have notations, legends or endorsements required by law or usage. All Bonds bearing interest at Daily, Weekly, Multiannual or Commercial Paper Rates shall initially be issued in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof. All Bonds bearing interest at the Fixed Rate shall be in denominations of \$5,000 or integral multiples thereof.

Upon the execution and delivery of this Indenture and, upon receipt by the Trustee of a Credit Facility satisfying the requirements of Article V, the Issuer shall issue the Series 2003 Bonds in the form of a single Series 2003 Bond (for each maturity (and for each interest rate within a maturity) during a Fixed Rate Period) executed in its name and delivered to the Trustee as the transfer agent of the Depository pursuant to the FAST method of delivery and deposit. Upon receipt of payment for the Series 2003 Bonds, the Trustee shall authorize the Depository to credit the account of the purchasing Participant with a beneficial interest in the Series 2003 Bonds as more fully described in Section 2.02 hereof.

CUSIP numbers (if then generally in use), may be used to identify a specific series of Bonds. In such event, the Trustee shall use CUSIP numbers to further identify such Bonds in notices to Owners provided that the effectiveness thereof shall not be affected by any errors in identification. In addition, in the event that different interest modes are selected with a series, such modes shall be designated with separate CUSIP numbers.

THE BONDS CONSTITUTE GENERAL OBLIGATIONS OF THE ISSUER AND ADDITIONALLY ARE PAYABLE FROM AND SECURED BY THE PLEDGE OF AND LIEN UPON THE TRUST ESTATE AS PROVIDED HEREIN. NO COVENANT OR AGREEMENT IN THE BONDS, THIS INDENTURE OR THE OTHER BOND DOCUMENTS AND NO OBLIGATION THEREIN OR HEREIN IMPOSED UPON THE ISSUER SHALL CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE UNIVERSITY, THE UNIVERSITY BOARD, THE BOARD OF GOVERNORS, THE STATE BOARD, THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF.

(b) Simultaneously with the execution and delivery of this Indenture, a series of Bonds designated as "Series 2003" shall be issued to finance the Project. The Series 2003 Bonds shall be issued in an aggregate principal amount of \$35,000,000 and shall mature on September 1, 2033.

Section 2.02 Book Entry System. The Bonds, initially in printed or typewritten form, shall be made payable to Cede & Co., as nominee of The Depository Trust Company ("DTC"), which shall be considered to be the Owner for all purposes of this Indenture, including, without limitation, payment by the Issuer of principal or purchase price of, premium, if any, and interest on the Bonds, and receipt of notices and exercise of rights of an Owner.

A single Bond (and for each maturity (and for each interest rate within a maturity) during a Fixed Rate Period) shall be immobilized in the custody of DTC or its agent, with the owners of beneficial interests having no right to receive Bonds in the form of physical securities or certificates. Ownership of beneficial interests in the Bonds shall be shown by book-entry on the system maintained and operated by DTC and its Participants, and transfers of ownership of beneficial interests shall be made only by DTC and its Participants, by book-entry, the Issuer having no responsibility therefor. DTC is expected to maintain records of the positions of Participants in the Bonds, and the Participants and persons acting through Participants are expected to maintain records of the purchasers of beneficial interests in the Bonds. The Bonds as such shall not be transferable or exchangeable, except for transfer to another Depository or to another nominee of a Depository, without further action by the Issuer.

If DTC or any successor entity determines not to continue to act as a securities depository for the Bonds for use in a book-entry system, the Issuer may, with the consent of the owners of the beneficial interests of a majority in aggregate principal amount of affected Bonds then Outstanding, attempt to have established a Depository/book-entry system relationship with another qualified Depository under this Indenture. If the Issuer does not or is unable to do so, the Issuer and the Trustee, after the Trustee has made provision for notification of the beneficial owners by the then Depository, shall permit withdrawal of the Bonds from the Depository, and authenticate and deliver the Bonds in fully registered form to the assigns of the Depository or its nominee, all at the cost and expense (including costs of printing definitive Bonds) of the Issuer. Upon the written request of 100% of the owners of beneficial interests in the affected Bonds then Outstanding, the Trustee shall withdraw the Bonds from the Depository and authenticate and deliver the Bonds fully registered in the name of the assignees of the Depository or its nominee.

NEITHER THE ISSUER, THE CREDIT FACILITY PROVIDER NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO THE DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICES (INCLUDING NOTICES OF REDEMPTION) TO THE DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR OWNERS OF BENEFICIAL INTERESTS.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE OWNER OF RECORD, REFERENCE HEREIN TO THE OWNER OR OWNER OF RECORD OF THE BONDS SHALL

MEAN CEDE & CO. AND SHALL NOT MEAN THE OWNERS OF BENEFICIAL INTERESTS IN THE BONDS.

In order to induce DTC to act as Depository for the Bonds, the Issuer and the Trustee shall execute and deliver a Blanket Issuer Letter of Representations and an Operational Arrangements Agent Letter, respectively, each in standard form approved by DTC (collectively, the "Letter of Representations"). The Trustee shall take all action necessary to comply with the terms of the Letter of Representations. Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of DTC or its nominee, all payments with respect to principal or premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the Letter of Representations.

Section 2.03 Execution and Authentication. The Bonds shall be executed with the manual or facsimile signature of the President of the Issuer and attested by the manual or facsimile signature of the Secretary of the Issuer. The Issuer's seal (or a facsimile thereof) shall be reproduced on the Bonds. In case any officer of the Issuer whose signature or facsimile of whose signature shall appear on any Bonds shall cease to be such officer before the delivery of such Bonds, such signature or facsimile shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery. Any Bond signed by an officer of the Issuer on the date of execution shall be deemed validly signed even though such signatory may not have been an officer of the Issuer on the dated date of such Bonds.

A Bond will not be valid until a Responsible Officer of the Trustee manually signs the certificate of authentication on the Bond. Only such authenticated Bonds shall be entitled to any right or benefit under this Indenture. Such signature shall be conclusive evidence that the Bond has been duly issued and is secured by the provisions hereof.

Section 2.04 Payments of Purchase Price, Principal, Redemption Price and Interest; Persons Entitled Thereto.

(a) The purchase price, interest on and the principal or redemption price of the Bonds shall be payable in lawful money of the United States of America, in immediately available funds delivered or transmitted to the Depository or nominee thereof that was the holder of the Bond at the close of business on the Record Date applicable to that Interest Payment Date.

(b) Subject to the further provisions of Article III hereof, each Bond shall bear interest and be payable as follows:

(i) Each Bond shall bear interest (at the applicable rate determined pursuant to Article III hereof) (A) from the date of authentication, if such date is the date of original issuance of the Bonds, (B) from the date of authentication, if authenticated on an Interest Payment Date to which interest has been paid, or (C) from the last preceding Interest Payment Date to which interest has been paid in all other cases.

(ii) The amount of interest so payable on any Interest Payment Date shall be computed (A) on the basis of a 365/366 day year for the number of days actually elapsed during Commercial Paper, Daily and Weekly Rate Periods and (B) on the basis of a 360-day year of twelve (12) thirty (30) day months during Multiannual and Fixed Rate Periods.

Section 2.05 Depository Treated as Bond Owner. When a Book-Entry System is in effect, the Depository shall be deemed the absolute owner of the Bond for all purposes, and payment of principal, interest or purchase price will be made only to or upon the written order of the Depository.

Section 2.06 Acts of Owners. Any action to be taken by Owners may be evidenced by one or more concurrent written instruments of similar tenor signed or executed by such Owners in person or by their agents appointed in writing. The fact and date of the execution by any Person of any such instrument may be proved by acknowledgments or by an affidavit of a witness to such execution. Any action by the Owners shall bind all future Owners in respect of anything done or suffered by the Issuer or the Trustee in pursuance thereof.

ARTICLE III
INTEREST RATE PERIODS; CONVERSIONS TO
DIFFERENT PERIODS; REQUIRED PURCHASE EVENTS

Section 3.01 Initial Interest Rates; Subsequent Rates; Continuing Disclosure .

(a) The Series 2003 Bonds shall initially bear interest at the Weekly Rate as determined by the Remarketing Agent from time to time in accordance with the provisions of Section 3.02(d). The Rate Period applicable to the Bonds may, at the option of the Issuer and with the consent of the Credit Facility Provider (subject to Section 3.03(v)), be converted to or from a Daily, Weekly, or Multiannual Rate Period (with one or more Multiannual Rate Periods), or Commercial Paper Rate Period, or to a Fixed Rate Period, pursuant to the following Sections 3.02 through 3.07.

(b) If the Issuer elects to convert all or a portion of the Bonds to bear interest at either a Multiannual or Fixed Rate, the Issuer shall deliver a certificate of continuing disclosure to the Remarketing Agent. Such certificate shall be in form and substance reasonably acceptable to the Remarketing Agent; provided, however that the Issuer shall not be obligated to deliver such certificate if, prior to such conversion, the Issuer provides to the Trustee and Remarketing Agent an Opinion of Counsel that, notwithstanding such election by the Issuer, the Rule is not applicable to the remarketing of the Bonds.

Section 3.02 Rate Periods; Daily Rates; Weekly Rates; Multiannual Rates.

(a) Rate Periods in General. The following describes in general terms the various interest Rate Periods. Reference is made to subsequent paragraphs for language specific to each mode.

The Bonds bear interest that is payable on each **Interest Payment Date** to the **Depository** which then electronically transfers payments to the Participants' accounts in the Book-Entry system as of the **Record Date** for the relevant Interest Payment Date. The frequency of interest rate adjustments, referred to herein as the **Rate Periods**, may be determined by election of the Issuer. The actual interest rate borne by the Bonds is determined and announced by the Remarketing Agent in the manner described in this Article. The effective date of any change in **Rate Periods** is called a **Conversion Date**.

The **Rate Periods** are classed into three subgroups, **Variable Rate**, **Commercial Paper Rate** and **Fixed Rate**, as follows:

Variable Rate Periods :

Daily – A new interest rate is announced daily.

Weekly - A new interest rate is announced weekly.

Multiannual– A new interest rate is announced for a set multiple of years.

Commercial Paper Rate Period – An interest rate is established for a set amount of Bonds that are sold or remarketed for par value at the beginning of each Commercial Paper Rate Period established for the particular Bonds and repurchased at the end of the Commercial Paper Rate Period for par value. The duration of each Rate Period and the interest rate are established by the Remarketing Agent at the time of sale or remarketing. Unlike other Rate Periods, repayment terms and interest rates for any given principal amount of Bonds may differ from that set for any other Bonds. This sometimes is also referred to as a commercial paper mode.

Fixed Rate Period – The interest rate is fixed and remains in effect until payment or redemption. Once the Bonds are converted to a Fixed Rate, no further conversion of the Rate Period may occur.

(b) Announcement by Remarketing Agent. Subject to the further provisions of this Article III with respect to particular Variable Rates or conversions between Rate Periods, the Variable Rate to be applicable to Bonds during any Variable Rate Period shall be announced by the Remarketing Agent:

(i) In each case, the Variable Rate for the Variable Rate Period in question shall be determined by the Remarketing Agent on the date or dates and at the time or times required pursuant to subsection (c), (d) or (e) below, whichever is applicable.

(ii) The Variable Rate shall be the lowest rate of interest that, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to the principal amount thereof, plus accrued interest, under prevailing market conditions as of the date of announcement; provided that, (A) if the Remarketing Agent fails for any reason to announce or notify the Trustee of the Variable Rate for any Variable Rate Period when required hereunder, the Variable Rate for such period shall be deemed to be the Variable Rate then in effect; and (B) in no event shall the Variable Rate for any Variable Rate Period exceed the Maximum Rate.

(iii) All announcements, communications and determinations of Variable Rates pursuant to this Section shall be conclusive and binding upon the Issuer, the Trustee, the Credit Facility Provider, the Owners of the Bonds to which such rates are applicable. The Issuer, the Trustee, the Paying Agent and the Remarketing Agent shall not be liable to any Owner for failure to give any notice required above or for failure of any Owner to receive any such notice.

(c) Daily Rates. A Daily Rate shall be established for each Daily Rate Period as follows:

(i) Daily Rate Periods shall commence on and include each Business Day and shall extend to, but not include, the next succeeding Business Day.

(ii) The Daily Rate for each Daily Rate Period shall be effective from and including the commencement date thereof and shall remain in effect to, but not including, the next

succeeding Business Day. Each such Daily Rate shall be announced by the Remarketing Agent no later than 9:30 a.m., on each Business Day, and by the close of business on Friday of each calendar week, or next succeeding Business Day if Friday is not a Business Day, and the Remarketing Agent shall communicate to the Trustee the Daily Rates announced for the week ending on such Friday; provided further that, not later than 12:30 p.m. on the last Business Day of each month, the Remarketing Agent shall communicate to the Trustee the Daily Rates announced since the immediately preceding Friday.

(d) Weekly Rates. A Weekly Rate shall be determined for each Weekly Rate Period as follows:

(i) Weekly Rate Periods shall commence initially on the date of issuance and thereafter on Thursday of each week and shall end on the following Wednesday, whether or not such day is a Business Day; except that in the case of a conversion to a Weekly Rate Period from a different Variable Rate Period or from a Commercial Paper Rate Period, the initial Weekly Rate Period for Bonds shall commence on the Weekly Rate Conversion Date from such other Variable Rate Period and end on the Wednesday immediately following such Weekly Rate Conversion Date. All conversions from a Weekly Rate Period shall occur on a Conversion Date.

(ii) The Weekly Rate for each Weekly Rate Period shall be effective from and including the commencement date of such period and shall remain in effect through and including the last day thereof. Each Weekly Rate shall be announced by the Remarketing Agent on the day of commencement of a Weekly Rate Period, or the immediately preceding Business Day, if such day is not a Business Day, and communicated to the Trustee by the Remarketing Agent by 12:00 noon on the day such rate is announced.

(e) Multiannual Rates. A Multiannual Rate shall be determined for each Multiannual Rate Period as follows:

(i) Multiannual Rate Periods shall (A) commence initially on the Multiannual Rate Conversion Date, and (B) end on the last day preceding either (a) the commencement date of the following Multiannual Rate Period or (b) the Conversion Date or Multiannual Rate Adjustment Date on which a different Rate Period shall become effective.

(ii) The Multiannual Rate for each Multiannual Rate Period shall be effective from and including the commencement date of such period and remain in effect through and including the last day thereof.

(iii) Not later than the Business Day immediately preceding the commencement date of such Multiannual Rate Period, the Remarketing Agent shall determine the Multiannual Rate and shall inform the Issuer, the Credit Facility Provider and the Trustee of the Multiannual Rate that will be applicable to each Bond as of the commencement date of such period; and provided that in no event shall the Multiannual Rate so established exceed the Maximum Rate.

Section 3.03 Conversions Between Variable Rate Periods. The Issuer may elect to cause all or a portion of the Bonds to be converted from one Variable Rate Period to another as follows:

(a) Conversion Date. The Conversion Date to a different Variable Rate Period shall be an Interest Payment Date on which interest is payable for the Variable Rate Period from which the conversion is to be made; provided, however, that if the conversion is from a Multiannual Rate Period to a different Variable Rate Period, the Conversion Date shall be limited to an Interest Payment Date on which a new Multiannual Rate Period would otherwise have commenced pursuant to subsection 3.02(e) above.

(b) Notices.

(i) The Issuer shall give written notice of any such conversion to the Remarketing Agent, the Issuer, the Trustee, the Rating Agency and the Credit Facility Provider not later than twenty (20) days prior to the proposed Conversion Date. Such notice shall specify the proposed Conversion Date and the Variable Rate Period to which the conversion will be made, and in the case of conversion to a Multiannual Rate Period, the number of years to be included within such Multiannual Rate Period. Such notice shall also state whether the Bonds will be secured by a Credit Facility following such conversion and whether the credit rating thereon will be reduced or withdrawn following such conversion.

(ii) Not less than fifteen (15) days prior to the Conversion Date, the Trustee shall send (by registered or certified mail, confirmed fax or e-mail, or overnight delivery) a written notice (in the form provided by the Issuer) of the conversion to the Credit Facility Provider and the Depository. Such notice shall set forth:

A. the information set forth in the notice from the Issuer pursuant to subparagraph 3.03(b)(i) above,

B. the dates by which the Remarketing Agent will announce and the Trustee will notify the Owners of the Variable Rate for the Variable Rate Period commencing on the Conversion Date pursuant to subparagraph (iii) below, and

C. the matters required to be stated pursuant to Section 3.09 with respect to purchases of Bonds on the Required Purchase Date.

(iii) Variable Rate Determination. The Variable Rate for the Variable Rate Period commencing on the Conversion Date shall be determined by the Remarketing Agent in the manner and on the date provided in subsection 3.02 (c), (d) or (e) above, whichever is applicable to the Variable Rate Period to which the conversion shall be made.

(iv) Opinion of Tax Counsel. Any conversion to a Multiannual Rate pursuant to this Section 3.03 shall be subject to the condition that on the Conversion Date, the Issuer shall have delivered to the Trustee, the Credit Facility Provider and the Remarketing Agent an Opinion

of Tax Counsel satisfactory to the Credit Facility Provider to the effect that the conversion is authorized hereunder and will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. If such opinion is not delivered for any reason, the conversion shall not be effective and the Bonds shall continue to bear interest for the last effective Variable Rate Period at the Variable Rate determined by the Remarketing Agent as of the date on which the conversion was to occur. The Trustee shall promptly notify the Depository of such fact.

(v) Consent of Credit Facility Provider. Except for conversions between Weekly and Daily Rates, consent of the Credit Facility Provider shall be obtained prior to such conversion becoming effective.

(vi) Multiple Variable Rates. If less than all of the Bonds are to bear interest at the same Variable Rate the following provisions shall apply:

A. The Remarketing Agent shall obtain a separate CUSIP number for the Bonds in each Variable Rate Period and furnish the same to the Trustee.

B. Not less than \$1,000,000 in principal amount of Bonds may be converted to bear interest at a separate Variable Rate.

C. The Trustee shall calculate the interest due with respect to each Rate Period in effect, pursuant to Section 2.04 hereof, and draw for interest on a monthly basis as provided in Section 5.08 hereof.

Section 3.04 Conversions from Commercial Paper Rate Periods. At the option of the Issuer, the Bonds may be converted from a Commercial Paper Rate Period to a Variable Rate Period as follows:

(a) Conversion Date. The Conversion Date shall be the Interest Payment Date on which interest is payable for any Commercial Paper Rate Period theretofore established for the Bonds to be converted pursuant to Section 3.06.

(b) Notices. The Issuer shall give written notice of any such conversion to the Remarketing Agent, the Trustee, the Rating Agency and the Credit Facility Provider not later than the thirtieth (30th) day prior to the proposed Conversion Date. Such notice shall specify the proposed Conversion Date and the type of Rate Period to which the conversion will be made, and in the case of conversion to a Multiannual Rate Period, the number of years to be included within such Multiannual Rate Period. The Trustee shall give notice of conversion (in the form provided by the Issuer) to the Depository prior to the Conversion Date in the manner prescribed by subsection 3.03(b)(ii) above. Notwithstanding the foregoing, however, no conversion shall be effected unless, prior to the date on which such notice is required to be given, the Trustee shall have received written confirmation from the Remarketing Agent to the effect that it has not established and will not establish any Commercial Paper Rate Period, extending beyond the Conversion Date and the opinion required by Section 3.03(b)(iv) above shall be delivered on the Conversion Date. If such opinion is not delivered for any reason, the conversion shall not be effective and the Bonds shall continue to bear interest at the Commercial Paper

Rate determined by the Remarketing Agent as of the date on which the conversion was to occur. The Trustee shall promptly notify the Depository of such fact.

The Variable Rate for the Variable Rate Period commencing on the Conversion Date shall be announced and notice thereof shall be given in the same manner as if provided for conversions from one Variable Rate Period to another pursuant to subsection 3.03(b)(ii) above.

Section 3.05 Commercial Paper Rates. A Commercial Paper Rate for each Commercial Paper Rate Period shall be determined by the Remarketing Agent in the manner described in Section 3.08.

The Commercial Paper Rate Period for each Bond shall be of such duration, not exceeding two hundred seventy (270) days, as may be offered by the Remarketing Agent and specified by the purchaser pursuant to Section 3.08 and any Bond may bear interest at a Commercial Paper Rate for a Commercial Paper Rate Period different from any other Bond; provided that, each such Commercial Paper Rate Period shall commence and terminate on a Business Day (the first Commercial Paper Rate Period commencing on the Commercial Paper Rate Conversion Date). The Bonds shall always be registered in Book-Entry Form while bearing interest at the Commercial Paper Rate.

The Commercial Paper Rate for each Commercial Paper Rate Period shall be effective from and including the commencement date of such period and end on the last day thereof. Each such Commercial Paper Rate shall be determined by the Remarketing Agent in connection with a sale or remarketing of the Bond or Bonds to which it relates pursuant to Sections 3.08 and 3.09 hereof. Commercial Paper Rates shall be determined for Bonds at the commencement of each Commercial Paper Rate Period with respect to such Bond by the Remarketing Agent in connection with the remarketing of Bonds, by the offer and acceptance of purchase commitments for such Bonds and in no event shall the Commercial Paper Rate for any Commercial Paper Rate Period exceed the Maximum Rate.

Each such Commercial Paper Rate and Commercial Paper Rate Period shall be announced by the Remarketing Agent to the Trustee no later than 3:00 p.m. on the date of remarketing of such Bond.

Section 3.06 Conversions to Commercial Paper Rate Periods. At the option of the Issuer, the Bonds may be converted from a Variable Rate Period to Commercial Paper Rate Periods as follows:

(a) Conversion Date. In the case of a conversion from a Multiannual Rate Period, the Conversion Date shall be limited to the Multiannual Rate Adjustment Date on which a new Multiannual Rate Period would otherwise have commenced pursuant to Section 3.02(e); otherwise conversion shall occur on an Interest Payment Date.

(b) Notices. The Issuer shall give written notice of any such conversion to the Trustee, the Remarketing Agent, the Rating Agency and the Credit Facility Provider in the manner and at the time prescribed by Section 3.03(b)(i) above.

(c) Depository Notice. On a Business Day not later than fifteen (15) days prior to the Conversion Date, the Trustee shall send (by registered or certified mail, confirmed fax, email, or overnight delivery) a written notice of the conversion (in the form provided by the Issuer) to the Depository specifying the Conversion Date and setting forth the matters required to be stated pursuant to Section 3.09 with respect to purchases of Bonds governed by such Section. Notwithstanding the foregoing, however, no conversion shall be effected unless the opinion required by Section 3.03(b)(iv) above shall be delivered on the Conversion Date. If such opinion is not delivered for any reason, the conversion shall not be effective and the Bonds shall continue to bear interest for the last effective Variable Rate Period at the Variable Rate determined by the Remarketing Agent as of the date on which the conversion was to occur. The Trustee shall promptly notify the Depository of such fact.

Section 3.07 Fixed Rate Conversion at Option of Issuer. At the option of the Issuer, the Bonds bearing interest at a Variable Rate or Commercial Paper Rates may be converted to bear interest at a Fixed Rate to their final maturity. Any such conversion shall be made as follows:

(a) Fixed Rate Conversion Date. The Fixed Rate Conversion Date shall be (i) if converted from a Daily Rate Period or a Weekly Rate Period, an Interest Payment Date, (ii) if converted from a Commercial Paper Rate Period, the last Interest Payment Date on which interest is payable at the Commercial Paper Rate for such Bonds, and (iii) if converted from a Multiannual Rate Period, any Interest Payment Date on which a new Multiannual Rate Period would begin.

(b) Fixed Rate Conversion Notice of Issuer.

(i) The Issuer shall give written notice of any such conversion to the Trustee, the Remarketing Agent, the Rating Agency and the Credit Facility Provider not fewer than thirty-five (35) days prior to the proposed Conversion Date. Such notice shall specify the Fixed Rate Conversion Date and shall state whether the Bonds will be secured by a Credit Facility following such conversion and the amount available under such Credit Facility. Such notice shall also state whether the credit rating thereon will be reduced or withdrawn following such conversion.

(ii) On a Business Day not fewer than thirty (30) days prior to the Fixed Rate Conversion Date, the Trustee shall mail (by first class mail) a written notice (in the form provided by the Issuer) of the conversion to the Depository specifying the Conversion Date and setting forth the matters required to be stated pursuant to the following subparagraph (c).

(c) Notice to Depository. Notice of conversion shall be given by first-class mail by the Trustee to the Depository. Such notice shall contain:

(i) the proposed Fixed Rate Conversion Date;

(ii) the dates by which the Remarketing Agent will determine and the Trustee will notify the Depository of the Fixed Rate pursuant to subsection (d) below; and

(iii) the matters required to be stated pursuant to Section 3.09 with respect to purchases of Bonds on the Required Purchase Date.

(d) Announcement of Fixed Rate. Not later than 12:00 noon on the Business Day prior to the Fixed Rate Conversion Date the Remarketing Agent shall announce the Fixed Rate for the Bonds and notify the Trustee and the Issuer of the Fixed Rate by telephone (promptly confirmed in writing). The Fixed Rate so announced shall be the minimum rate of interest to be borne by the Bonds for the Fixed Rate Period, which rate of interest shall not be greater than the lowest rate of interest that, in the judgment of the Remarketing Agent under prevailing market conditions, would cause the Bonds to have a market value equal to the principal amount thereof plus accrued interest thereon. The announcement of the Fixed Rate by the Remarketing Agent shall be conclusive and binding upon the Issuer, the Trustee and the Owners of the Bonds to which such rate will be applicable.

(e) Conditions to Fixed Rate Conversion. Any conversion to a Fixed Rate pursuant to this Section 3.07 shall be subject to the following conditions:

(i) on the Fixed Rate Conversion Date, the Issuer shall have delivered to the Issuer, the Trustee, the Credit Facility Provider and the Remarketing Agent an Opinion of Tax Counsel satisfactory to the Trustee to the effect that the conversion is authorized hereunder and will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation; and

(ii) as of the Fixed Rate Conversion Date, sufficient funds shall be available (whether by way of drawing on the Credit Facility or otherwise) to purchase Bonds that are then required to be purchased pursuant to Section 3.10.

If the foregoing conditions are not met for any reason, the conversion shall not be effective and the Bonds shall continue to bear interest at the Variable Rate (if the conversion was to have been made from a Variable Rate Period), or at Commercial Paper Rates (if the conversion was to have been made from Commercial Paper Rate Periods), in each case determined by the Remarketing Agent as of the date on which the conversion was to occur.

(f) Credit Facility Requirements following Fixed Rate Conversion. No Bonds may be converted to a Fixed Rate unless (i) such Bonds shall be secured by the existing Credit Facility; notwithstanding, Bonds may be converted to a Fixed Rate without being secured by the existing Credit Facility, provided that, written evidence is given to the Trustee from each Rating Agency then rating the Bonds stating that such conversion will not result in a reduction or withdrawal of the Rating on the remaining Outstanding Bonds or (ii) all of the Bonds are converted to a Fixed Rate and are no longer secured by a Credit Facility.

Section 3.08 Required Purchase During Commercial Paper Rate Periods.

(a) Purchase Dates. Each Bond bearing interest at a Commercial Paper Rate shall be subject to required purchase on the first Business Day succeeding the last day of the Commercial Paper Rate Period applicable to such Bond at a purchase price equal to 100% of the principal amount thereof. Each subsequent Commercial Paper Rate Period and Required Purchase Date for a Bond shall be established on the Required Purchase Date of such Bond as hereinafter provided. The purchase

price for Bonds shall be paid in immediately available funds to the Depository by 2:45 p.m. on the Required Purchase Date.

(b) Remarketing of Surrendered Bonds; Establishment of Commercial Paper Rate Periods. The Remarketing Agent shall offer for sale and use its best efforts to find purchasers for all Bonds bearing interest at Commercial Paper Rates required to be surrendered for purchase. In remarketing the Bonds, the Remarketing Agent shall offer and accept purchase commitments for the Bonds for such Commercial Paper Rate Periods and at such Commercial Paper Rates as will effect, on behalf of the Issuer and in the judgment of the Remarketing Agent under prevailing market conditions, the lowest overall debt service cost for the Issuer over the term of the Bonds; provided, however, that the Remarketing Agent may (1) in exercising its judgment, establish Commercial Paper Rate Periods that result in interest rates for the Bonds that are higher than those that would be borne by Bonds with shorter Commercial Paper Rate Periods in order to increase the likelihood of achieving the lowest overall debt service cost to the Issuer and (2) establish different Commercial Paper Rate Periods for the Bonds on the same Required Purchase Date in order to achieve an average of Commercial Paper Rate Periods that, in its judgment, is more likely to achieve the lowest overall debt service cost to the Issuer. No Commercial Paper Rate Period may be established that exceeds two hundred seventy (270) days or, if the Remarketing Agent has received notice of any conversion to a Variable or Fixed Rate Period, such shorter period consisting of the remaining number of days prior to the Conversion Date. The terms of any sale by the Remarketing Agent shall provide for sale of the Bonds at par and the payment of the purchase price to the Trustee in immediately available funds, not later than 11:15 a.m. on the Required Purchase Date. In no event shall the Remarketing Agent remarket Bonds to the Issuer or to a Person or entity who is, to the Remarketing Agent's knowledge, an Insider. The provisions of Sections 4.01(c), (d), (e), (f) and (g) shall apply to the remarketing of Bonds purchased pursuant to this Section 3.08.

Section 3.09 Required Purchase Upon Conversion Dates and Multiannual Rate Adjustment Dates.

(a) Conversion to Variable Rate Periods. Upon conversion of any Bonds to a different Rate Period and upon a Multiannual Rate Adjustment Date, such Bonds shall be subject to required purchase on the Conversion Date at a purchase price equal to 100 % of the principal amount thereof plus interest accrued thereon, if any.

(b) Notice of Conversion. Any notice of a Conversion Date given to Owners pursuant to Sections 3.03, 3.04, 3.06 or 3.07 shall, in addition to the requirements of such Sections, state that the Bonds to be converted will be subject to required purchase on the Required Purchase Date.

(c) Remarketing of Bonds Surrendered for Purchase. The Trustee shall notify the Remarketing Agent of the principal amount of Bonds to be surrendered for purchase on the Conversion Date or Multiannual Rate Adjustment Date. The Remarketing Agent shall offer for sale and use its best efforts to find purchasers for such Bonds. The terms of any sale by the Remarketing Agent shall provide for sale of the Bonds at par plus accrued interest, if any, and the payment of such purchase

price of remarketed Bonds to the Trustee in immediately available funds, at or before 11:15 a.m. on the Conversion Date or Multiannual Rate Adjustment Date. In no event shall the Remarketing Agent remarket Bonds to the Issuer or to a Person or entity who is, to the Remarketing Agent's knowledge, an Insider. The provisions of Sections 4.01(c), (d), (e), (f) and (g) shall apply to remarketing of Bonds purchased pursuant to this Section 3.09.

Section 3.10 Required Purchase Upon Fixed Rate Conversion.

(a) Conversion to Fixed Rate. Any Bonds to be converted to bear interest at the Fixed Rate pursuant to Section 3.07 shall be subject to required purchase on the Fixed Rate Conversion Date at a price equal to the principal amount thereof plus accrued interest thereon, if any.

(b) Remarketing of Bonds Surrendered for Purchase. The Trustee shall notify the Remarketing Agent and the Bank, if the Credit Facility is in effect, by telephone, telegraph, telecopy, telex or other similar communication, of the principal amount of Bonds to be surrendered for purchase on the Fixed Rate Conversion Date. The Remarketing Agent shall offer for sale and use its best efforts to find purchasers for such Bonds. The terms of any sale by the Remarketing Agent shall provide for sale of the Bonds at par plus accrued interest, if any, and the payment of the purchase price to the Trustee of the tendered Bonds in immediately available funds at or before 11:15 a.m. on the Conversion Date. While a Credit Facility is in effect, the Remarketing Agent shall not remarket Bonds to the Issuer or to a Person or entity who is, to the Remarketing Agent's knowledge, an Insider. The provisions of Sections 4.01(c), (d), (e), (f) and (g) shall apply to remarketing of Bonds pursuant to this Section 3.10.

Section 3.11 Required Purchase or Special Tender Option Upon Substitution or Expiration of Credit Facility.

(a) Required Purchase. If the Bonds are supported by a Credit Facility, the Bonds shall be subject to required purchase to be made from the sources and in the priority set forth in Section 4.01(e):

(i) on the fifth (5th) day prior to the expiration of a Credit Facility, provided that no such purchase shall be required if such Credit Facility is renewed prior to the date of notice, pursuant to subsection 3.11(c)(ii) below;

(ii) on the effective date of a substitute Credit Facility, provided that no such purchase shall be required if the new Credit Facility is delivered prior to the date of notice, pursuant to subsection 3.11(c)(ii) below, and the Trustee shall have received, on or prior to such date, written confirmation from each Rating Agency then rating the Bonds to the effect that the rating or ratings assigned by such Rating Agency to the Bonds will not be lowered or withdrawn solely as a result of the substitution of the Credit Facility; and

(iii) on a Business Day specified by the Trustee in the notice referred to in subsection 3.11(c)(ii) below not later than ninety (90) days after the filing of a petition of bankruptcy (or the commencement of a bankruptcy or similar proceeding) by or against the Credit Facility Provider if

by the sixtieth (60th) day following such occurrence, an Alternate Credit Facility has not been issued to the Trustee as provided in Section 5.07 hereof in connection with which the Trustee has received written confirmation from each Rating Agency then rating the Bonds to the effect that the rating or ratings assigned by such Rating Agency to the Bonds will not be lowered or withdrawn solely as a result of issuance of such Alternate Credit Facility.

(b) Special Tender Option. Owners of Bonds bearing interest at a Multiannual Rate shall have twenty (20) days from the date of a notice of substitution of the Credit Facility pursuant to Section 3.11(c)(iii) below to require, through delivery of written notice of tender, that such Bonds be repurchased at par plus accrued interest to the date of purchase. Such written notice of tender shall be delivered in the manner set forth in Section 4.01 hereof to the Trustee and the Remarketing Agent. The tendered Bonds shall be purchased not later than 5 p.m. on a Business Day specified by the Owner in such notice that is not more than ten (10) days following receipt by the Trustee and Remarketing Agent of such notice of tender.

(c) Notice of Required Purchase or Special Tender Option.

(i) The Trustee shall immediately notify the Issuer, the Credit Facility Provider, the Rating Agency and the Remarketing Agent, in each case by telephone (promptly confirmed in writing), telegram, telecopy, telex or other similar communication, of any event actually known to the Trustee that would require a purchase pursuant to subsection 3.11(a) above.

(ii) Not later than thirty (30) days prior to the purchase date, the Trustee shall mail a written notice of the purchase to the Depository which notice shall (a) specify the purchase date, (b) specify the event requiring the purchase pursuant to subsection 3.11(a) above, (c) specify the expiration date of the Credit Facility, if appropriate, and (d) state, if appropriate, that the expiration will result in reduction or withdrawal of the rating on the Bonds.

(iii) In the event that no purchase is required as a result of a substitution that does not result in a reduction of the ratings assigned to the Bonds, not later than thirty (30) days prior to the substitution, the Trustee shall mail a written notice to the Depository which notice shall state the name of the new Credit Facility Provider and the anticipated date of substitution and for Bonds that bear interest at a Multiannual Rate, that the Owners of such Bonds shall have twenty (20) days from such notice to exercise their Special Tender Option.

(d) Remarketing of Bonds Surrendered for Purchase or Tendered Bonds. Upon any required purchase pursuant to subsection 3.11(a) above, the Trustee shall notify the Remarketing Agent and the Credit Facility Provider, if the Credit Facility is in effect, by telephone (promptly confirmed in writing), facsimile transmission or e-mail, of the principal amount of Bonds to be surrendered for purchase. The Remarketing Agent shall offer for sale and use its best efforts to find purchasers for such Bonds. The terms of any sale by the Remarketing Agent shall provide for sale of the Bonds at par plus accrued interest, if any, and the payment of the purchase price of the remarketed Bonds to the Trustee in immediately available funds at or before 11:15 a.m. on the Required Purchase Date. If necessary, the Remarketing Agent shall establish a new interest rate for Multiannual Rate

Bonds tendered pursuant to the Special Tender Option, described in subsection 3.11(b) above, such that the Bonds may be remarketed at par. Any Bonds remarketed after the occurrence of an event described in subsections 3.11(a)(i) or (ii) above shall be accompanied by a written notice setting forth the fact that either (a) the Credit Facility has been terminated or has or will expire or (b) the Credit Facility has not been substituted, or has been substituted and the ratings on Bonds have been or will be lowered or withdrawn. While a Credit Facility is in effect, the Remarketing Agent shall not remarket Bonds to the Issuer or to a Person or entity who is, to the Remarketing Agent's knowledge, an Insider. The provisions of Sections 4.01(c), (d), (e), (f) and (g) shall apply to remarketing of Bonds purchased pursuant to this Section 3.11.

ARTICLE IV
TENDER AND REMARKETING OF BONDS;
REDEMPTION PROVISIONS

Section 4.01 Tender Option During Variable Rate Periods .

(a) Notice of Tender. A Participant desiring to tender an interest in the Bonds shall notify the Trustee and the Remarketing Agent of the date and amount of such tender. Such interests will be transferred upon payment on the tender date by means of a book-entry transfer of the Participant's interests in the Bonds to the account of the Trustee (or the Remarketing Agent) maintained by the Depository.

Subsequent to such tender, such Participant shall have no further rights with respect to such tendered Bonds, except for the right to receive, through the Depository, the purchase price thereof plus accrued interest to the purchase date.

(b) Purchase Dates. The ownership interest of a Bond or any portion thereof (in authorized denominations) bearing interest at a Daily, Weekly or Multiannual Rate shall be purchased by either the Trustee or the Remarketing Agent, in each instance acting as an agent of the Issuer, at a purchase price equal to 100% of the principal amount of such ownership interest (or portions thereof as aforesaid), plus accrued interest, if any, on the following purchase dates and upon the giving of the following telephonic or written notices meeting the further requirements of this subsection (b) below:

(i) Bonds bearing interest at a Daily Rate may be tendered for purchase at a price payable in immediately available funds on any Business Day during a Daily Rate Period upon telephonic notice of tender (promptly confirmed in writing) given to the Trustee and Remarketing Agent not later than 10:15 a.m. on the purchase date.

(ii) Bonds bearing interest at a Weekly Rate may be tendered for purchase at a price payable in immediately available funds on any Business Day during a Weekly Rate Period upon delivery of a written notice of tender given to the Trustee and Remarketing Agent not later than 5:00 p.m. on a Business Day not fewer than seven (7) days prior to the purchase date.

(iii) Bonds bearing interest at Multiannual Rates may be tendered as provided in Section 3.11 upon substitution of a Credit Facility.

(c) Remarketing of Tendered Bonds. Unless otherwise instructed by the Issuer (with the consent of the Credit Facility Provider, if any), the Remarketing Agent shall offer for sale and use its best efforts to find purchasers for all Bonds or portions thereof for which notice of tender has been received. The terms of any sale by the Remarketing Agent shall provide for the payment to the Trustee of the purchase price for remarketed Bonds in an amount equal to par plus accrued interest in immediately available funds at or before 11:15 a.m. for Bonds bearing interest at a Variable Rate or

Commercial Paper Rate on the purchase date. Subject to the provisions of Section 4.01(d)(iii), all amounts received in payment of the purchase price of remarketed Bonds shall be applied to the purchase of the tendered Bonds. The Issuer shall not have any interest in such moneys. Notwithstanding the foregoing, the Remarketing Agent shall not, prior to the applicable Conversion Date or a redemption date, remarket any Bond as to which a notice of conversion from one type of Variable Rate Period to another, to Commercial Paper Rate Periods or to a Fixed Rate Period or as to which a notice of redemption has been given by the Trustee unless the Remarketing Agent has advised and received acknowledgement from the Person to whom the sale is made of the forthcoming conversion or redemption. In no event shall the Remarketing Agent remarket Bonds to the Issuer or to a Person or entity that is, to the Remarketing Agent's knowledge, an Insider.

(d) Purchase of Unremarketed Tendered Bonds or Bonds Surrendered for Purchase.

(i) Notice of Failed Remarketing or Non-Receipt of Remarketing Proceeds. The Remarketing Agent shall give written notice to the Trustee at or before 11:15 a.m. on the Business Day fixed for purchase of tendered or surrendered Bonds bearing interest at Daily Rates, Weekly Rates, Commercial Paper Rates or Multiannual Rates, stating the principal amount of tendered or surrendered Bonds that have not been remarketed or for which remarketing proceeds have not been received.

(ii) Payment of Purchase Price from Credit Facility. The Trustee, at or before 12:00 noon on the date fixed for purchase, shall draw upon the Credit Facility in accordance with its terms an amount sufficient to pay the principal or purchase price corresponding to the principal of, plus all accrued and unpaid interest on all tendered or surrendered Bonds that have not been remarketed or for which remarketing proceeds have not been received.

(iii) Resale of Bonds Purchased with Draws Under the Credit Facility. The Remarketing Agent shall offer for sale and use its best efforts to sell Bonds purchased with amounts drawn under the Credit Facility at a price equal to the principal amount thereof plus accrued interest. Interests of the Credit Facility Provider in Bonds purchased from moneys drawn under the Credit Facility shall be released only if prior to such release the Trustee has received notice from the Credit Facility Provider that the Credit Facility has been reinstated in full or will be reinstated in full upon such release and the Trustee has received notice of the time of such release (thereby assuring that the release will not occur prior to such reinstatement). Proceeds from the remarketing of such Bonds shall be held in a separate account, hereby created and established (the "Credit Facility Provider Account"), maintained for the account of and paid to the Credit Facility Provider.

(e) Sources of Payments. Payments for tendered Bonds shall be made to the Depository in immediately available funds at or before 2:45 p.m. on the purchase date from the sources and in the following order: (A) moneys received as proceeds of the remarketing of such Bonds by the Remarketing Agent (except proceeds from the sale of Bonds to the Issuer or any Insider), (B) moneys drawn by the Trustee on the Credit Facility, (C) any Available Moneys and (D) other moneys made available by the Issuer. If sufficient funds are not available for the purchase of all tendered or

surrendered Bonds, no purchase shall be consummated and the procedures in Section 4.02 shall be followed. The Trustee shall not have any obligation to advance its own funds for payment of tendered or surrendered Bonds. When a Credit Facility is not in effect, the Trustee will make payments of the purchase price of Bonds first from the proceeds of any remarketing of Bonds and second from any other moneys available to the Trustee for such purchase.

(f) Registration and Delivery of Tendered or Purchased Bonds. An ownership interest in the Bonds shall be transferred on the records maintained by the Depository to the account of the Trustee (or the Remarketing Agent), for settlement on the purchase date against receipt of funds; and if such ownership interests bear interest at a Multiannual Rate and are to be purchased prior to the next succeeding Interest Payment Date and after the Record Date in respect thereof, a due bill, payable to bearer, for interest due on such Interest Payment Date, shall be delivered to the Participant by the Owner giving notice of such tender. Transfer of the beneficial interests shall be made upon settlement as follows: (A) Bonds purchased or remarketed by the Remarketing Agent shall be registered in accordance with the prior written instructions of the Remarketing Agent; (B) Bonds purchased with amounts drawn under the Credit Facility, if any, shall be registered in the name of the Credit Facility Provider or in the name of such other Person as the Credit Facility Provider may direct; and (C) Bonds purchased with amounts provided by the Issuer shall be cancelled.

(g) Delivery of Bonds. Anything to the contrary herein notwithstanding, so long as Bonds are registered in the name of a Depository, neither the Trustee nor any Participant shall hold or deliver physical Bonds and all such Bonds shall be held, delivered, registered and exchanged through the appropriate Book-Entry System.

Section 4.02 Inadequate Funds for Tenders. If the funds available for purchase of Bonds pursuant to Article III and this Article IV are inadequate for the purchase of all Bonds tendered on any purchase date, the Trustee shall return all moneys received for the purchase of such Bonds to the Persons providing such moneys and notify the Issuer of the failure to make payment for tendered Bonds.

Section 4.03 Optional Redemption During a Variable or Commercial Paper Rate Period. When interest on the Bonds is payable at any Variable Rate (except a Multiannual Rate) the Bonds may be redeemed, at the option of the Issuer, at par in whole on any Business Day or in part on any Interest Payment Date. When interest on the Bonds is payable at a Commercial Paper or Multiannual Rate the Bonds may be redeemed at par in whole or in part, at the option of the Issuer, on the Business Day succeeding the last day of any Commercial Paper or Multiannual Rate Period.

Section 4.04 Optional Redemption at a Premium During a Fixed Rate Period. When the interest on the Bonds is payable at a Fixed Rate, the Bonds may be redeemed at the option of the Issuer on any date in whole or in part as follows: If, on the date of commencement of a Fixed Rate Period, the length of such period falls within one of the entries in the Fixed Rate Period column below, the Bonds will not be redeemable for the number of years after the Conversion Date shown in the No-call Period column. On and after the date on which the No-call Period ends, the Bonds may be redeemed at the percentage of their principal amount shown in the Initial Premium column. The

premium will decline by 1% on each anniversary of the date on which the Bonds are first callable until the Bonds are redeemable without premium in the year indicated in the No Premium column and for any later years in the Fixed Rate Period.

Fixed Rate Period

<u>Equal to or Greater Than</u>	<u>But Less Than</u>	<u>No-call Period</u>	<u>Initial Premium</u>	<u>No Premium</u>
12 years	N/A	8 years	102%	10th year
9 years	12 years	7 years	102%	9th year
7 years	9 years	5 years	101%	7th year
5 years	7 years	3 years	101%	5th year

If the Fixed Rate Period is greater than two (2) years but less than five (5) years, the Bonds will be redeemable at 100% of their principal amount in the final year, 100-1/2% during the next-to-last year and nonredeemable before that. If the Fixed Rate Period is equal to or less than two (2) years, the Bonds will be redeemable only in the final year at 100% of their principal amount.

If the Remarketing Agent determines that remarketing the Bonds with different premiums and a different no-call period from that set forth above would, in the judgment of the Remarketing Agent, based upon prevailing market conditions, (i) enable the Bonds to be sold at 100% of their principal amount bearing a lower rate of interest, or (ii) otherwise provide financial benefit to the Issuer, then the Remarketing Agent shall so notify the Issuer and the Trustee not fewer than forty (40) days prior to the proposed Conversion Date of such different premiums and no-call period that shall be applicable as of the date of commencement of the Fixed Rate Period. Notwithstanding the foregoing, such revised premiums and no-call period determined by the Remarketing Agent shall not be effective unless the Issuer shall deliver to the Remarketing Agent and the Trustee an Opinion of Tax Counsel to the effect that the revised premiums and no-call period are authorized hereunder and will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. If such opinion is not delivered for any reason, the announced premiums and no-call period shall not become effective and redemption at the premiums and with the no-call period explicitly set forth above shall apply to the Bonds.

Section 4.05 Extraordinary Optional Redemption. When interest on the Bonds is payable at a Fixed Rate or the Multiannual Rate, the Bonds may be redeemed at a price equal to 100% of the principal amount of the Bonds being redeemed plus accrued interest thereon to the date of redemption in whole, at the option of the Issuer, at any time after the occurrence of any of the following:

(a) the Project, or a substantial portion thereof, shall have been damaged or destroyed to such an extent that, in the opinion of the Issuer, (i) the required restoration and repair could not reasonably be expected to be completed within a period of six (6) months after commencement of restoration or repair, (ii) the Issuer is prevented or would likely be prevented from using such Project or a substantial portion thereof for its normal purposes for a period of six (6) months or more or (iii) the cost of restoration and repair would not be economically practical or desirable; or

(b) title to the whole or any part of the Project financed with the Bonds or the use or possession thereof shall have been taken or condemned by a competent authority to such an extent that, in the opinion of the Issuer, the Issuer is prevented or would likely be prevented from using such Project for its normal purposes for a period of not less than six (6) months.

Section 4.06 Redemption Notices to Trustee. If the Issuer determines that any Bonds shall be redeemed pursuant to any optional redemption provision, the Issuer will notify the Trustee of the applicable provision in writing, the redemption date and the principal amount of Bonds to be redeemed and other necessary particulars or other items requested by the Trustee. If the Issuer determines that any Bonds be credited against any mandatory sinking fund obligation for the Bonds, the Issuer will notify the Trustee and the Credit Facility Provider in writing of the applicable provisions, the Bonds to be credited and other necessary particulars or other items requested by the Trustee and will deliver to the Trustee any Bonds in respect of which it determines to receive a credit to the extent not already delivered. The Issuer will give the written notice (and make any required delivery of Bonds) at least forty-five (45) days before the redemption date.

Section 4.07 Mandatory Redemption from Periodic Redemption Requirements. While the Bonds bear interest at a Variable or Commercial Paper Rate, for so long as the Credit Facility is in effect, the Trustee shall redeem Bonds in amounts and at such times as set forth in a periodic redemption schedule attached to the initial Credit Facility Agreement. The amortization schedule contained in the initial Credit Facility may be revised as provided in such Credit Facility, may be revised upon the institution of an Alternate Credit Facility and may be modified or amended without the consent of the Owners of the Bonds; notwithstanding, no such modification shall become effective unless an Opinion of Tax Counsel is furnished by the Issuer to the Trustee to the effect that such change will not adversely affect the exclusion from the gross income, for federal income tax purposes, of an owner of the beneficial interest therein. Any mandatory redemption made pursuant to a periodic redemption schedule contained in a Credit Facility Agreement shall be without premium.

Section 4.08 Mandatory Redemption From Amortization Requirements. If a Fixed Rate is in effect, the Bonds shall, beginning on the Fixed Rate Conversion Date, be amortized, without premium, based upon level debt service over the remaining life of the Bonds utilizing for such purpose the Fixed Rate determined by the Remarketing Agent. The Remarketing Agent shall, on the Fixed Rate Conversion Date, establish serial and term Bond maturities (and related amortization installments) in such a manner as to produce the lowest overall true interest cost. Notwithstanding, no such amortization shall occur unless an Opinion of Tax Counsel is furnished to the Trustee and the Remarketing Agent to the effect that such amortization requirements will not adversely affect the exclusion of interest on the Bonds from gross income, for federal income tax purposes, of an owner of

the beneficial interest therein. If a Credit Facility is in effect with respect to the Fixed Rate Bonds, payments of principal and interest on such Fixed Rate Bonds shall be made solely from Available Moneys.

Section 4.09 Mandatory Redemption Upon Determination of Taxability. In the event of a Determination of Taxability, the Bonds shall be redeemed, as a whole, on a date determined by the Trustee that is within one hundred twenty (120) days of such determination, as a whole, at a Redemption Price equal to the principal amount thereof, plus accrued interest to the redemption date, provided that no such redemption is required to be made if and so long as such determination is being appealed or otherwise contested in good faith by the Issuer who shall notify the Trustee in writing; and provided, further, that such contest shall not have continued for longer than two (2) years after the occurrence of such Determination of Taxability.

Section 4.10 Selection of Bonds To Be Redeemed. If fewer than all of the Bonds are to be redeemed, the Trustee will first select Pledged Bonds and then will select the remaining Bonds by lot or other method it deems fair and appropriate. The Trustee will make the selection from Bonds not previously called for redemption. For this purpose, the Trustee will consider each Bond in a denomination larger than the minimum denomination permitted by the Bonds at the time to be separate Bonds each in the minimum denomination. Provisions of this Indenture that apply to Bonds called for redemption also apply to portions of Bonds called for redemption.

Section 4.11 Notice of Redemption; Accrued Interest. The Trustee shall, upon written request and direction of the Issuer, give notice of any redemption of Bonds under the terms of this Article IV to the Depository and the Rating Agency; provided that no such notice shall be sent with respect to an optional redemption to be made with a draw on the Credit Facility unless the Trustee has received the written consent of the Credit Facility Provider to such optional redemption. The failure of the Trustee to give notice shall not affect the validity of the redemption.

All notices of redemption shall state:

- (1) the redemption date and the redemption price;
- (2) the identification, including complete designation of the series or subseries of which the Bond is a part and CUSIP number;
- (3) if less than all Outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts), maturity dates and interest rates of the Bonds to be redeemed;
- (4) that on the redemption date the redemption price will become due and payable upon each such Bond, and that interest thereon shall cease to accrue from and after said date provided that sufficient moneys to pay the principal, premium, if any, and accrued interest on the Bonds to be redeemed is available to the Trustee on the redemption date or else such redemption shall not occur;

(5) the address where such Bonds are to be surrendered to the Trustee for payment of the redemption price and the name of a contact person and his or her telephone number; and

(6) that the redemption shall not occur unless Available Moneys are on deposit with the Trustee (except after the Bonds are converted to a Fixed Rate and no longer secured by a Credit Facility) which, together with draws available under the Credit Facility, are sufficient to pay the redemption price, including premium if any, on the redemption date and are available for such purpose.

Notice of redemption of Bonds to be redeemed at the election of the Issuer shall, upon receipt of written notice and direction from the Issuer, be given by the Trustee in the name of the Issuer and at the expense of the Issuer.

Prior to the redemption of any Bonds, the Issuer shall deposit into the Redemption Account with the Trustee an amount of money sufficient to pay the redemption price of all the Bonds that are to be redeemed on such date. So long as the Credit Facility is in effect, no notice of redemption for any optional redemption pursuant to the Indenture shall be given by the Trustee unless at or prior to such time either (i) Available Moneys are on deposit in the Redemption Account sufficient to pay the principal, interest and premium, if any, of all Bonds to be redeemed, or (ii) Available Moneys are on deposit in the Redemption Account in an amount sufficient to pay any redemption premiums required by the Indenture, or the Credit Facility provides for the payment of such premium, and the Credit Facility Provider has consented in writing to a draw on the Credit Facility for payment of the principal of and interest on the Bonds to be redeemed, and, if applicable, the premium.

Time and Manner of Notice. Notices described in this Section shall be given at least thirty (30) days, but not more than sixty (60) days, prior to the redemption date by (i) registered or certified mail, postage prepaid, (ii) telephonically confirmed facsimile transmission, or (iii) overnight delivery service, to:

The Depository Trust Company
711 Stewart Avenue
Garden City, New York 11530-4719
Attn: Supervisor, Call Notification Department
Facsimile transmission: (516) 227-4164 or (516) 227-4190

At least two (2) days before the date of the mailing required by the foregoing paragraph, such redemption notice shall be given by (i) registered or certified mail, postage prepaid, (ii) overnight delivery service, or (iii) facsimile transmission to two (2) of the following services selected by the Issuer and at the address provided to the Trustee by the Issuer:

- (1) Financial Information, Inc.'s Financial Daily Called Bond Service;
- (2) Interactive Data Corporation's Bond Service;

- (3) Kenny Information Service's Called Bond Service;
- (4) Standard & Poor's Called Bond Record;

or any successor services.

Failure to give the notices to DTC or the information services described in the preceding two paragraphs or any defect therein shall not in any manner affect the redemption of any Bond.

Section 4.12 Payment of Bonds Called for Redemption. Bonds called for redemption shall be paid at the redemption price, plus interest accrued to but not including the applicable redemption date. Bonds called for redemption that are required to be purchased before the redemption date will not be redeemed but will be purchased as provided in Section 4.14 hereof.

Section 4.13 Payments of Bonds Other Than upon Required Purchases. When a Credit Facility is in effect, the Trustee will make payments of redemption price and principal of and interest on Bonds first, from moneys drawn under the Credit Facility pursuant to Section 5.08, second from payments made from the proceeds from the initial sale of the Bonds and related investment earnings constituting Available Moneys upon the occurrence of an Event of Default, third from any other Available Moneys, and last from any other moneys available to the Trustee. However, payments of redemption price and principal and interest on Bonds held by the Issuer or by the Trustee for the account of the Issuer (for its own account or as pledgor) will be paid only from the last two categories of moneys. The proceeds of investments of any moneys in any of these categories may be used to the same extent as the moneys invested could be used had they not been invested. If a Credit Facility is no longer in effect, if the Issuer makes a line of credit or other credit facility available to the Trustee and delivers to the Trustee an Opinion of Counsel by nationally recognized counsel familiar with bankruptcy matters to the effect that payments in respect of the Bonds from moneys furnished under the line of credit or other credit facility will not be recoverable in the event of an Act of Bankruptcy to any greater extent than would moneys drawn under the Credit Facility, the Trustee may make payments of principal, interest and purchase price in respect of the Bonds from moneys made available under such line of credit or other facility.

When a Credit Facility is not in effect, the Trustee will make payments of redemption price and principal of and interest on the Bonds first from the proceeds of the initial sale of the Bonds and related investment earnings to the extent such proceeds and earnings are available for the purpose, second from the remarketing proceeds of the sale of Bonds under this Article to the extent available for such payment and third from any other moneys available to the Trustee for such purpose.

Section 4.14 Cancellation of Certain Purchased Bonds. Bonds purchased pursuant to a required purchase after having been called for redemption, subject to the notice and acknowledgement requirement of Section 4.01(c), will be canceled and the amount of such Bonds shall be credited against the amount of Bonds called for redemption. This shall not apply with respect to Bonds that have been

remarketed pending redemption or that are being held as Pledged Bonds pending reimbursement of the Credit Facility Provider.

Section 4.15 Effect of Redemption. If sufficient funds are available to pay all principal, premium, if any, and interest on Bonds called for redemption on any date and such funds have been set aside for the payment of such Bonds, such Bonds shall cease to bear interest on the redemption date. If sufficient funds are not available to pay all principal, premium, if any, and interest due on Bonds called for optional redemption on any date, no optional redemption shall occur and such Bonds shall continue to bear interest. While Bonds bear interest at a Fixed Rate and if a Credit Facility is in effect, then only Available Moneys shall be used to pay the principal of, premium, if any, and interest on any Bonds called for optional redemption, and if Available Moneys are not on deposit in amounts necessary to pay the entire principal of and interest and premium, if any, on any Bonds called for optional redemption, then no optional redemption shall occur and such Bonds shall continue to bear interest at the stated Fixed Rate. While a Credit Facility is in effect, the Trustee shall make payments of redemption price and principal of and interest on the Bonds in the manner described in Sections 4.13 and 5.08.

ARTICLE V
APPLICATION OF PROCEEDS; CREATION OF FUNDS;
LETTER OF CREDIT

Section 5.01 Application of the Series 2003 Bond Proceeds.

(a) The Issuer will deposit the proceeds of the Series 2003 Bonds with the Trustee. The Trustee will deposit such proceeds and the investment earnings thereon in separate accounts and will disburse the same for the following purposes:

(i) The accrued interest received upon delivery of the Series 2003 Bonds, if any, shall be deposited in the Accrued Interest Account contained in the Sinking Fund, created and established in Section 5.02 hereof, and used for the purpose of paying interest on the Bonds.

(ii) The balance of the Series 2003 Bond proceeds shall be deposited to the Project Fund, which is hereby created, established, and so designated (the "Project Fund"). The money in the Project Fund shall be held in trust by the Trustee, shall be applied by such Trustee to the payment of Costs of the Project and costs and expenses of the issuance of the Series 2003 Bonds and, pending such application, shall be subject to the lien of this Indenture in favor of holders of the Series 2003 Bonds and the Credit Facility Provider and for the further security of such holders until paid out or transferred as hereinafter provided.

(b) Money on deposit in the Project Fund shall be paid out from time to time by the Trustee in order to pay, or reimburse the Issuer for payments made for, the Costs of the Project upon receipt by the Trustee of a requisition signed by the Issuer Representative containing the following:

(i) the amount requested to be paid;

(ii) the name and address of the person to whom such payment is to be made;

(iii) a description, in reasonable detail, of the particular cost, and what portion, if any, represents a cost of issuance;

(iv) a certification by the Issuer Representative that each obligation, item of cost, or expense mentioned therein has been properly incurred, is in payment of a part of the Cost of the Project and is a proper charge against the Project Fund and has not been the basis of any previous withdrawal, or that each obligation, item of cost or expense mentioned therein has been paid, is a reimbursement of a part of the Cost of the Project and is a proper charge against the Project Fund, has not been theretofore reimbursed or otherwise been the basis of any previous withdrawal and the person to whom such payment is to be made is entitled to reimbursement thereof;

The Trustee shall not be liable for any misapplication of money in the Project Fund if such money shall have been disbursed pursuant to the provisions of this Section and the Trustee is without actual knowledge that any disbursement constitutes a misapplication of funds.

If, after payment from the Project Fund by the Trustee of all requisitions previously tendered to the Trustee under the provisions of this Section, and after receipt by the Trustee from the Issuer of a Certificate of Completion for the Project, there shall remain any balance of money in the Project Fund, such balance shall be applied as set forth in Section 5.01(e) hereof.

(c) If an Event of Default occurs and the maturity of the Bonds is accelerated before the Trustee has paid out all of the proceeds of the sale of the Bonds and related investment earnings, the Trustee will use such proceeds and earnings to redeem or pay the Bonds or reimburse the Credit Facility Provider and will notify the Issuer and the Credit Facility Provider of its use of such proceeds or earnings to pay the Bonds or reimburse the Credit Facility Provider. While a Credit Facility is in effect, the Trustee shall make payments of redemption price and principal of and interest on the Bonds in the manner described in Sections 4.13 and 5.08.

(d) For seven (7) years from the date thereof the Trustee shall retain in its possession all requisitions received by it as in this Indenture required, subject to the inspection of the Issuer, its agents and representatives, and the beneficial owners and their representatives at all reasonable times at its designated corporate trust office.

The Trustee shall submit monthly accounts of the balances on deposit in the Project Fund to the Issuer and to the Credit Facility Provider.

(e) After the Trustee shall have set aside sufficient moneys for the payment of any remaining part of the Cost of the Project, the balance on deposit in the Project Fund shall be transferred to the Redemption Account in the Sinking Fund and the Project Fund shall be closed (except to the extent of any moneys which have been so set aside) and such balance shall be credited to the next ensuing principal payment. Any balance remaining in the Redemption Account in the Sinking Fund in excess of such principal payment amount shall be promptly applied by the Trustee to effect the purchase or redemption of the Series 2003 Bonds, to the extent possible. The Trustee shall (1) purchase the Series 2003 Bonds then Outstanding and available for purchase as designated in writing by the Issuer within ten (10) days after the Completion Date, at a price not exceeding the par value thereof and interest accrued thereon to the date of purchase, or (2) if no Series 2003 Bonds then Outstanding shall be so designated in writing by the Issuer within ten (10) days after the Completion Date, call the Series 2003 Bonds for redemption at the earliest possible date, the aggregate principal amount of which, together with the applicable redemption premium and interest payable thereon to the date of redemption, will most nearly exhaust the moneys in the Redemption Account in the Sinking Fund. While a Credit Facility is in effect, the Trustee shall make payments of redemption price and principal of and interest on the Bonds in the manner described in Sections 4.13 and 5.08.

Section 5.02 Sinking Fund; Payments by Issuer. A special fund is hereby created and designated the "Sinking Fund." There are hereby created in the Sinking Fund four separate accounts designated the "Bond Service Account," the "Accrued Interest Account," the "Redemption Account" and the "Credit Facility Account."

The moneys in each of said Accounts and Funds shall be held by the Trustee in trust and applied as hereinafter provided with regard to each such account or fund and, pending such application, shall be subject to a lien and charge in favor of the holders of the Bonds issued and outstanding under this Indenture and the Credit Facility Provider and for the further security of such holders and the Credit Facility Provider until paid out or transferred as herein provided. The Issuer shall pay to the Trustee for deposit to the Sinking Fund moneys sufficient to provide funds on deposit in the Sinking Fund on each Interest Payment Date or date on which principal is due on the Bonds, in the amount so due. If any Event of Default shall have occurred and be continuing hereunder, the Trustee may additionally transfer such shortfall to the Sinking Fund from moneys on deposit in the Project Fund. While a Credit Facility is in effect, the Trustee shall make payments of redemption price and principal of and interest on the Bonds in the manner described in Sections 4.13 and 5.08. All funds derived from a draw under the Credit Facility or received as accrued interest paid upon the remarketing of Pledged Bonds (as described in Section 5.08 hereof) shall be deposited and retained in the Credit Facility Account pending application thereof.

Section 5.03 Payment of Interest on and Principal of the Bonds. Subject to the provisions of Section 4.13 hereof (concerning the source of payments), the Trustee shall, on each Interest Payment Date and each mandatory sinking fund redemption date, withdraw from the Bond Service Account and deliver by wire transfer to the Depository, and the Depository shall remit by mail or wire transfer, as applicable, to each Participant, the amount required for paying the principal of and interest on such Bonds as such principal (including sinking fund installments) and interest becomes due and payable. Amounts drawn under the Credit Facility to pay principal of and interest on the Bonds shall be reimbursed to the Credit Facility Provider directly from the Issuer or from moneys deposited to the Bond Service Account for such purpose.

Subject to the provisions of Section 4.13 hereof, the Trustee shall on each optional or periodic redemption date prior to redemption of any Bonds, withdraw from the Redemption Account and deliver by wire transfer to the Credit Facility Provider, the amount drawn on the Credit Facility in order to optionally or periodically redeem such Bonds.

Section 5.04 Investment of Moneys. The Trustee will invest and reinvest moneys held by it under this Indenture at the written or oral (promptly confirmed in writing) request of the Issuer (absent the occurrence and continuation of an Event of Default) in any Qualified Investments. In the event no such instructions are received by the Trustee, such amounts shall be invested in Qualified Investments described in clause (i) of the definition thereof, pending receipt of such investment instructions. The Trustee will hold (i) moneys drawn under the Credit Facility and all related investment earnings, and (ii) moneys from the initial sale of the Bonds and related investment earnings upon the occurrence and continuance of an Event of Default, uninvested or will invest them at the written or oral (promptly

confirmed in writing) direction of the Issuer, in U.S. Government Obligations with maturities not longer than thirty (30) days or the date on which such moneys are required for the purposes to which they are to be applied. Any unclaimed remarketing proceeds shall only be invested in overnight U.S. Government Obligations pending application thereof. All investment earnings shall be credited to the account in which they were earned.

The Trustee may make investments permitted by this Article through its own bond or investment department or the bond or investment department of any bank or trust company under common control with the Trustee. Investments will be made so as to mature or be subject to redemption at the option of the holder on or before the date or dates that the Issuer anticipates that moneys from the investments will be required. Investments will be registered in the name of the Trustee and held by or under the control of the Trustee. The Trustee will sell and reduce to cash a sufficient amount of investments whenever the cash held by the Trustee is insufficient. The Issuer agrees for the benefit of the Owners and the Credit Facility Provider that moneys held by the Trustee in connection with the Bonds, whether or not such moneys were derived from the proceeds of the sale of the Bonds, will not be used in a manner that will cause the Bonds to be classified as “arbitrage bonds” within the meaning of Section 148(a) of the Code and any regulations promulgated thereunder. The Trustee shall have no liability or responsibility for ensuring that investments are not made in a manner that result in any Bonds being classified as “arbitrage bonds” or for any suitability or other requirements.

Although the Issuer recognizes that it may obtain a broker confirmation or written statement containing comparable information at no additional cost, the Issuer hereby agrees that confirmations of Qualified Investments are not required to be issued by the Trustee for each month in which a monthly statement is rendered. No statement need be rendered for any fund or account if no activity occurred in such fund or account during such month.

Section 5.05 Rebate. The Issuer shall prepare or cause to be prepared all calculations necessary to comply with the rebate requirements contained in Section 148 of the Code, and shall deposit, for the credit of the Rebate Account, hereby created and defined, the full amount of any accrued and unpaid rebate liability. The Trustee shall pay such amounts from the Rebate Account, at the direction of the Issuer, to the United States. The foregoing provision notwithstanding, the Trustee shall at all times have the right to (a) engage a firm of certified public accountants or other consultant to make rebate calculations, (b) pay rebate amounts to the United States from the Trust Estate, and (c) charge the Issuer reasonable amounts for such actions. The Trustee shall not be liable for any action it takes or omits to take with due care pursuant to this Section 5.05.

Amounts on deposit in the Rebate Account shall not be subject to the lien or encumbrance of this Indenture, but shall be held in trust by the Trustee and used solely to make required rebates to the United States and neither the Issuer, Owners nor Credit Facility Provider shall have any right to have the same applied to the payment of principal or interest on the Bonds or otherwise than as provided in this Section.

Section 5.06 Moneys Held in Trust. The Trustee will hold in trust for the benefit of the beneficial owners and the Credit Facility Provider the proceeds of the initial sale of the Bonds until they are applied as provided in Section 5.01 and all moneys held by it for any payment on or purchase of the Bonds. Money received by the Trustee from the sale of a Bond under Article III or IV will be held segregated from other funds of the Trustee in trust for the benefit of the person from whom such Bond was purchased, or, if it is not to be paid to such person, for the benefit of the person entitled to it. Except as provided in Section 5.08, the proceeds of remarketings of Bonds pledged to the Credit Facility Provider pursuant to the Credit Facility Agreement will be deposited into the Credit Facility Provider Account (established in Section 4.01(d)(iii) hereof) and held in trust by the Trustee solely for the benefit of the Credit Facility Provider.

Section 5.07 Requirements for Credit Facility; Alternate Credit Facility. Bonds bearing interest at a Variable Rate or a Commercial Paper Rate shall be secured by a Credit Facility meeting the requirements of this Section 5.07. The Credit Facility shall permit the Trustee to draw (a) amounts sufficient to pay (i) the principal of the Outstanding Bonds when due, or (ii) the portion of the purchase price of Outstanding Bonds tendered or deemed tendered for purchase and not remarketed, corresponding to the principal amount of such Bonds, plus (b) an amount equal to thirty-five (35) days' accrued interest on the Outstanding Bonds at the Maximum Rate to pay (i) up to thirty-five (35) days' accrued interest on the Outstanding Bonds when due, or (ii) the portion of the purchase price of Outstanding Bonds tendered or deemed tendered for purchase and not remarketed, corresponding to up to thirty-five (35) days' accrued interest on such Bonds. The Issuer may modify or terminate the initial or any subsequent Credit Facility (with notice to the Rating Agency), so long as such modified or new Credit Facility meets the terms and conditions of this Section 5.07. Each Credit Facility in effect after the initial Credit Facility must be an irrevocable, direct pay letter of credit or other credit facility issued by a commercial bank or banks or other institution with terms substantially the same as in the initial Credit Facility. If a Fixed Rate will be in effect, any maximum interest rate in respect of which draws for interest may be made will not be less than such Fixed Rate. The term of the Alternate Credit Facility must begin on or prior to the expiration date of a replaced or modified Credit Facility, if any, and end not less than twenty (20) days after an Interest Payment Date. If the Alternate Credit Facility is replacing a Credit Facility before the end of the term of the replaced Credit Facility, the Issuer shall (a) furnish the Trustee before the new term begins written evidence from each Rating Agency having a rating in effect for the Bonds that the Rating Agency has reviewed the proposed Alternate Credit Facility and that the replacement of the old Credit Facility will not by itself result in a withdrawal or reduction of the Rating Agency's current rating for the Bonds, or (b) notify the Trustee that a required purchase is to occur pursuant to Section 3.11. In addition, the Trustee shall surrender the existing Credit Facility for cancellation in accordance with its terms upon the provision of an Alternate Credit Facility providing there are no outstanding unpaid draws thereunder.

Thirty-five (35) days before the effective date of a Fixed Rate, the Issuer may deliver to the Trustee an irrevocable letter of credit or other credit facility with a term beginning on such effective date and ending at least twenty (20) days after an Interest Payment Date at least one year later.

Any Alternate Credit Facility delivered to the Trustee after the initial Credit Facility must be accompanied by an Opinion of Tax Counsel stating that delivery of the Alternate Credit Facility is authorized under this Indenture and complies with its terms and will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation, respectively. Prior to the date on which an Alternate Credit Facility is to secure the Bonds, the Trustee shall notify the Depository of the effective date of such Alternate Credit Facility and the name of the new Credit Facility Provider.

Section 5.08 Draws. Whenever any amount is payable on the Bonds, whether for scheduled payments of principal or interest, or by reason of acceleration, or for their purchase or redemption as provided in this Indenture or the Bonds, the Trustee will draw on the Credit Facility in accordance with its terms, if one is in effect, at the time and to the extent necessary to facilitate timely payment of principal or purchase price of and interest on the Bonds in accordance with this Indenture and the Bonds; provided that, the Trustee shall not draw on the Credit Facility or to pay principal or purchase price of or interest on (i) Pledged Bonds, (ii) Bonds registered in the name, or to its actual knowledge, held for the beneficial interest of the Issuer or any Insider, or (iii) Bonds following a Fixed Rate Conversion Date unless such Bonds are secured by the Credit Facility. In drawing on the Credit Facility, the Trustee will be acting on behalf of the Owners by facilitating payment of their Bonds and not on behalf of the Issuer and shall not be subject to the control of either of them. The Trustee shall deposit the proceeds of all draws under the Credit Facility into the Credit Facility Account created in Section 5.02 hereof and shall not commingle such funds with other funds held by it under this Indenture and will promptly remit such funds to the Depository on the required dates under this Indenture. In addition, while the Bonds bear interest at a Multiannual Rate, Commercial Paper Rate or Fixed Rate (provided the Bonds are secured by a Credit Facility), the Trustee shall draw on the Credit Facility on the first Business Day of each calendar month following the Multiannual, Commercial Paper, or Fixed Rate Conversion Date to pay interest in an amount accrued during the preceding calendar month up to but not including the date of such draw so that the Trustee shall have funds available in aggregate amount necessary to pay interest on each scheduled Interest Payment Date; provided, however, that the drawing that occurs on the first day of each month to accumulate interest for payment on an ensuing Interest Payment Date shall be in an amount equal to the interest accruing in the month prior to the draw date, with the balance of interest due being paid with a final draw on the Interest Payment Date. The proceeds of any drawing under the Credit Facility for interest accruing prior to the Interest Payment Date shall be deposited in the Credit Facility Account and used to pay interest on the next Interest Payment Date. Such funds shall either be held uninvested or invested in U.S. Government Obligations maturing the earlier of thirty (30) days or the next Interest Payment Date. In no event shall the Trustee draw on a Credit Facility for payments of Bonds that are not secured by such Credit Facility or for payments with respect to Pledged Bonds, or Bonds, to its actual knowledge, held by or for the account of the Issuer or an Insider.

Section 5.09 Pledged Bonds. Bonds purchased pursuant to Articles III and IV hereof from moneys drawn under the Credit Facility shall be pledged to and held for the account of the Credit Facility Provider or as otherwise directed by the Credit Facility Provider, and shall be released by the Trustee and remarketed only if (i) prior to such release the Trustee shall have received notice from the

Credit Facility Provider that the Credit Facility has been reinstated in full or will be reinstated in full upon such release and the Trustee has received notice of the time of such release (thereby assuring that the release will not occur prior to such reinstatement), or (ii) the Trustee has taken such actions as is required for the Credit Facility to be reinstated in full in accordance with its terms. Proceeds from the remarketing of such Bonds shall be held for the account of and paid to the Credit Facility Provider.

Section 5.10 Return of Credit Facility. On the substitution, expiration or termination of a Credit Facility, the Trustee will return it to its issuer for cancellation; provided that, no substitution or surrender shall occur unless all draws properly made prior to or upon such substitution or surrender have been honored.

Section 5.11 Funds and Accounts. The cash required to be accounted for in each of the funds and accounts established herein, except proceeds from a remarketing or from draws under the Credit Facility, may be deposited in a single bank account, provided that adequate accounting records are maintained to reflect and control the restricted allocation of the cash on deposit therein for the various purposes of such funds as herein provided.

The designation and establishment of the various funds in and by this Indenture shall not be construed to require the establishment of any completely independent, self-balancing funds as such term is commonly defined and used in governmental accounting, but rather is intended solely to constitute an earmarking of certain revenues and assets for certain purposes and to establish certain priorities for application of such revenues and assets as herein provided.

ARTICLE VI COVENANTS

Section 6.01. Payment of Bonds. The Issuer will promptly pay the principal of, premium, if any, and interest on the Bonds, at the place, on the dates and in the manner provided in the Bonds.

Section 6.02. Further Assurances. The Issuer will execute and deliver such supplemental indentures and such further instruments, and do such further acts, as the Trustee may reasonably require for the better assuring, assigning and confirming to the Trustee the amounts assigned under this Indenture for the payment of the Bonds.

Section 6.03. No Vacancy in Office of Trustee. The Issuer, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 9.08, a Trustee, so that there shall at all times be a Trustee hereunder.

Section 6.04. Project is Property of the State of Florida. If requested by the Credit Facility Provider, upon completion of the Project, the Issuer will execute and deliver to the Credit Facility Provider such bills of sale or other documents as shall be necessary to transfer all its right, title and interest in and to such Project to the State of Florida.

Section 6.05. Credit Facility. The Issuer shall comply with the terms and provisions of the Credit Facility Agreement.

Section 6.06. Use of Bond Proceeds. The moneys disbursed from the Project Fund to or for the account of the Issuer under this Indenture shall constitute a trust fund in the hands of the Issuer or other payee, and shall be used solely by such payee for the payment of a Cost of the Project and for no other purpose unless another use is specifically provided for in this Indenture or consented to in writing by the Trustee.

Section 6.07. Insurance. The Issuer shall cause the Project to be insured in form and amount in accordance with the standard practices of the State of Florida for State university facilities.

Section 6.08. Financial Statements. The Issuer shall maintain books and records relating to its business and the Project in accordance with generally accepted accounting principles, consistently applied. Upon an Event of Default, the Issuer shall cause to be delivered to the Trustee such financial statements and other information relating to the Issuer and the Project being constructed with the proceeds of the Bonds as provided in the Credit Facility Agreement.

Section 6.09. Place of Business. Without thirty (30) days' prior written notice to the Trustee, the Issuer will not change its sole place of business (or if it has more than one place of business, its chief executive office) from that address set forth herein for delivery of notices.

Section 6.10. Survival. The Issuer's obligations hereunder shall not be limited to any extent by the term of the Bonds and, as to any act or occurrence prior to payment in full and satisfaction of the Bonds which gives rise to liability hereunder, shall continue, survive and remain in full force and effect notwithstanding payment in full and satisfaction of the Bonds.

Section 6.11. Notice of Default. The Issuer will deliver immediate written notice of any Event of Default to the Credit Facility Provider, when a Credit Facility is in effect, or else to the Trustee.

Section 6.12. Compliance with Laws. The Issuer will observe, confirm and comply in every material respect with all laws, decisions, judgments, rules, regulations and orders of all applicable governmental authorities relative to the construction of the Project and the conduct of its business.

Section 6.13. Further Assurances. Take such other actions as may be reasonably requested by the Trustee in order to exercise, enforce or perfect its rights under this Indenture.

Section 6.14. Continuing Disclosure. The Issuer covenants and agrees to undertake all responsibilities for compliance with any continuing disclosure requirements under the Rule, and the Trustee shall have no liability to the Owners of the Bonds or any other Person with respect to such disclosure matters. The Trustee has no duty to enforce the continuing disclosure obligations of the Issuer under the Rule; however, the Trustee or any Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Issuer comply with its obligations under the Rule. Notwithstanding any other provision of this Indenture, failure of the Issuer to comply with any continuing disclosure requirements shall not be an Event of Default.

ARTICLE VII DISCHARGE OF INDENTURE

Section 7.01. Bonds Deemed Paid; Discharge of Indenture. Any Bond will be deemed paid for all purposes of this Indenture when (a) payment of the principal of and the maximum amount of interest that may become due on the Bond to the due date of such principal and interest (whether at maturity, upon redemption or otherwise) or the payment of the purchase price of any Bond that may be required to be purchased either (1) has been made in accordance with the terms of the Bonds or (2) has been provided for by depositing with the Trustee (A) moneys sufficient to make such payment and/or (B) non-callable and non-prepayable U.S. Government Obligations (described in clauses (a) or (b) of the definition of such term herein) maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, (b) all compensation and expenses of the Trustee pertaining to each Bond in respect of which such deposit is made have been paid or provided for to the Trustee's satisfaction, (c) in the case of clause (a)(2), the Trustee has received an Opinion of Counsel of nationally recognized standing familiar with bankruptcy matters, acceptable to the Rating Agency, to the effect that the deposit of moneys and U.S. Government Obligations would not be recoverable by a trustee in bankruptcy on the bankruptcy of the Issuer and an Opinion of Tax Counsel to the effect that the deposit of moneys and U.S. Government Obligations and the discharge of the Indenture would not have any adverse effect on the exclusion of interest on the Bonds of the Owner from gross income for federal income tax purposes, (d) in the case of clause (a)(2) and the Bonds are not bearing interest at a Fixed Rate, written confirmation from each Rating Agency rating the Bonds that the rating will not be reduced or withdrawn, and (e) in the case of (a)(2) there is delivered to the Trustee a report by an entity satisfactory to the Trustee verifying that the U.S. Government Obligations will mature as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to pay all principal and interest on the Bonds when due. When a Bond is deemed paid, it will no longer be secured by or be entitled to the benefits of this Indenture, except for payment from such moneys or U.S. Government Obligations and except that it may be tendered for purchase if and as provided in this Indenture and it may be transferred, exchanged, registered, discharged from registration or replaced as provided in Article II. Further, if a Credit Facility is in effect, the obligations of this Indenture shall not be discharged unless the Trustee has given notice to the Credit Facility Provider of the intended discharge and has received written notice from the Credit Facility Provider to the effect that all obligations of the Issuer to the Credit Facility Provider under the Credit Facility Agreement have been satisfied.

Notwithstanding the foregoing, no deposit under clause (a)(2) of the first paragraph of this Section will be deemed a payment of a Bond until (a) notice of redemption of the Bond is given in accordance with Article IV or, if the Bond is not to be redeemed or paid within the next sixty (60) days, until the Issuer has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions (1) to notify, as soon as practicable, the Depository, in accordance with Article IV, that the deposit required by (a)(2) above has been made with the Trustee and that the Bond is deemed to be paid under this Article and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of the Bond and, if the Bond is to be redeemed rather than paid, (2) to give

notice of redemption at least fifteen (15) but not more than sixty (60) days before the redemption date, or (b) the maturity of the Bond.

When all outstanding Bonds are deemed paid under the foregoing provisions of this Section and all obligations of the Issuer to the Credit Facility Provider under the Credit Facility Agreement have been satisfied in full, the Trustee will upon request of the Issuer acknowledge the discharge of the Issuer's obligations under this Indenture and the Bonds except for obligations under Article II in respect of the transfer, exchange, registration, discharge from registration and replacement of Bonds.

No deposit will be made or used in any manner which, in the Opinion of Tax Counsel, would cause any Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code.

Section 7.02. Application of Trust Money. The Trustee shall hold in trust money or U.S. Government Obligations deposited with it pursuant to the preceding Section and apply the deposited money and the proceeds from the U.S. Government Obligations in accordance with this Indenture only to the payment of principal of and interest on the Bonds and the payment of the purchase price of Bonds, which have been tendered or become subject to required purchase.

Section 7.03. Repayment to Credit Facility Provider and Issuer. The Trustee will promptly pay to the Credit Facility Provider (to the extent the Credit Facility Provider certifies to the Trustee, and provides three (3) days advance written notice to the Issuer, that the Issuer is indebted to it under the Credit Facility Agreement) and then to the Issuer any excess money or securities held by the Trustee at any time under this Article and any money held by the Trustee under any provision of this Indenture for the payment of principal or interest or for the purchase price of Bonds that remains unclaimed for two years, and an Owner may then look solely to the Issuer for payment of such principal or interest or purchase price.

Section 7.04. Assignment to Credit Facility Provider. Anything in this Indenture to the contrary notwithstanding, so long as any amounts due to the Credit Facility Provider under the Credit Facility remain unpaid following a draw under the Credit Facility for the purpose of paying all of the Bonds outstanding, the Trustee shall, promptly following the Credit Facility Provider's honor of the draft so drawn by the Trustee and at the written request of the Credit Facility Provider, transfer and assign to the Credit Facility Provider the Trust Estate, and, in addition, shall remit to the Credit Facility Provider all amounts in any of the funds created by this Indenture which remain after the payment in full of the Bonds (except for any balance remaining in the Rebate Account and except amounts held for the payment of the principal of and premium, if any, and interest on, or the purchase price of, any Bonds, any accrued and unpaid amounts held by the Trustee in accordance with Section 8.01 hereof, and any amounts owed the Trustee for its reasonable fees and expenses). Unless and until so transferred, the Trustee shall continue to hold the Trust Estate as security for, and for the benefit of, the Credit Facility Provider.

ARTICLE VIII DEFAULTS AND REMEDIES

Section 8.01. Events of Default. An "Event of Default" is any of the following:

- (a) A default in the payment of interest on any Bond when it becomes due.
- (b) A default in the payment of principal on any Bond at maturity, upon acceleration or redemption or otherwise when it becomes due.
- (c) A default in the payment of the purchase price of any Bond required by the terms hereof to be purchased.
- (d) The Issuer fails to perform any of its agreements in this Indenture, the other Bond Documents and the Bonds (other than a default under clause (a), (b) or (c) above), the performance of which is material to the Owners, and the failure continues after the notice and for the period specified in this Section.
- (e) The Issuer pursuant to or within the meaning of any Bankruptcy Law (1) commences a voluntary case, (2) consents to the entry of an order for relief against it in an involuntary case, (3) consents to the appointment of a custodian for it or any substantial part of its property or (4) makes a general assignment for the benefit of its creditors.
- (f) A court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (1) is for relief against the Issuer in an involuntary case, (2) appoints a custodian for the Issuer or any substantial part of its property or (3) orders the winding up or liquidation of the Issuer, and the decree or order remains unstayed and in effect for sixty (60) consecutive days.
- (g) The Trustee receives written notice from the Credit Facility Provider, upon which the Trustee may conclusively rely, that an "event of default" has occurred under the Credit Facility Agreement, which notice instructs the Trustee to declare the principal of all Bonds secured thereby then outstanding and interest thereon to be immediately due and payable.

A default under clause (d) of this Section (other than the occurrence of a Determination of Taxability to which this paragraph shall not be applicable) is not an Event of Default until (i) the Trustee, with the consent of the Credit Facility Provider, gives the Issuer a notice specifying the default, demanding that it be remedied and stating that the notice is a "Notice of Default," and (ii) the Issuer does not cure the default within thirty (30) days after receipt of the notice, or within such longer period as the Credit Facility Provider may, in its sole discretion, agree to. In the event, however that the default be such that it cannot be corrected within such thirty (30) day period, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within such period and diligently pursued (as determined by the Credit Facility Provider or, if no Credit Facility is in effect, by the Trustee) until the default is corrected.

Section 8.02. Acceleration. Except as provided herein, if an Event of Default under clause (e), (f) or (g) of the foregoing Section 8.01 occurs, the Trustee, by notice to the Issuer, shall immediately declare the principal and accrued interest on the Bonds to be due and payable on such day and all interest thereon shall cease to accrue (an "acceleration"). If any other Event of Default has occurred and is continuing, the Trustee by notice to the Issuer or (acting through the Depository) the beneficial owners of at least 25% in principal amount of the Bonds by notice to the Issuer and Trustee, may declare the principal of and accrued interest to the date of acceleration of the Bonds to be due and payable immediately. The Trustee will also give a copy of each such notice to the Credit Facility Provider. If a Credit Facility is in effect and the Event of Default is not under clause (g) of the foregoing Section and is not the result of a failure by the Credit Facility Provider to honor a draw under and in compliance with the Credit Facility, the Trustee shall not declare the Bonds to be due and payable without first obtaining the Credit Facility Provider's written consent. Upon such a declaration, the principal of and accrued interest on the Bonds will be due and payable immediately and interest on the Bonds shall cease to accrue and, if a Credit Facility is in effect, the Trustee shall immediately draw under the Credit Facility and pay the Owners of the Bonds. The Trustee may, and upon the written request of beneficial owners of a majority in principal amount of the Bonds, shall rescind and annul such acceleration and its consequences if before the entry of a judgment or decree for payment of the amounts due: (i) all existing Events of Default, other than the nonpayment of principal of, redemption premium, if any, and interest on the Bonds that have occasioned such acceleration, have been cured or waived, (ii) there has been paid to or deposited with the Trustee by or for the account of the Issuer, or provision satisfactory to the Trustee has been made for the payment of a sum sufficient to pay: (A) all overdue installments of interest on the Bonds; (B) the principal of, and redemption premium, if any, on any Bonds that have become due other than by such declaration of acceleration and interest thereon; (C) to the extent lawful, interest upon overdue installments of interest and redemption premium, if any; and (D) all sums paid or advanced by the Trustee hereunder, together with the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel prior to the date of notice of rescission; (iii) all payments due the Trustee and any predecessor Trustee under Section 8.06 have been made; and (iv) when a Credit Facility is in effect, the Credit Facility Provider consents in writing prior to any such rescission and the amount available to be drawn under the Credit Facility is reinstated to what it would have been had the acceleration not occurred.

No such rescission and annulment shall affect any subsequent default or impair any consequent right.

Upon any declaration of acceleration on the Bonds as described in the preceding paragraph, interest on overdue principal and, to the extent lawful, on overdue interest on each Bond outstanding will be payable at the rate borne by such Bond on the day before the default occurred.

Section 8.03 Other Remedies. If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the principal of or interest on the Bonds or to enforce the specific performance of any provision of the Bonds, this Indenture, the other Bond Documents or the Credit Facility.

No right or remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other right or remedy, but each such right or remedy shall, to the extent permitted by law, be cumulative of and in addition to every other right or remedy given hereunder or under any Bond Document or now or hereafter existing at law, in equity or otherwise. The assertion or employment of any right or remedy hereunder shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

The Trustee may enforce all rights under this Indenture, the other Bond Documents and the Bonds or maintain a proceeding even if it does not possess any of the Bonds or does not produce any of them in the proceeding. Any proceedings instituted by the Trustee may be brought in its name for itself or as representative of the beneficial owners without the necessity of joining beneficial owners as parties, and any recovery resulting from such proceedings shall, subject to Section 8.10, be for the ratable benefit of the beneficial owners. A delay or omission by the Trustee or any beneficial owner in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

Section 8.04 Waiver of Past Defaults. The Credit Facility Provider or the beneficial owners of a majority in principal amount of the outstanding Bonds, with the prior written approval of the Credit Facility Provider when a Credit Facility is in effect, by notice to the Trustee may waive an existing Event of Default and its consequences if the Credit Facility is reinstated up to the full amount available under it immediately prior to each Event of Default. Such written approval of the Credit Facility Provider shall include a notice of rescission of any Event of Default under the Credit Facility Agreement. When an Event of Default is waived, it is cured and stops continuing (until the expiration of such waiver, if any), but no such waiver will extend to any subsequent or other Event of Default or impair any right consequent to it.

Notwithstanding any provision of this Indenture, in no event shall any Person, other than all of the affected beneficial owners, have the ability to waive any Event of Default under this Indenture if such event results or may result, in the Opinion of Tax Counsel, in interest on any of the Bonds becoming includable in gross income for federal income tax purposes.

Section 8.05 Control by Credit Facility Provider or Majority Owners. Notwithstanding anything herein to the contrary, the Credit Facility Provider, so long as a Credit Facility is in effect and all payments required to be made by it pursuant to the terms of the Credit Facility have been made, and if no Credit Facility is in effect, the beneficial owners of a majority in principal amount of the outstanding Bonds may, direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture or, subject to Section 8.01, that the Trustee determines is unduly prejudicial to the rights of other beneficial owners, or would involve the Trustee in personal liability. The Trustee shall not be liable for any action directed by the Credit Facility Provider under this Section except for the Trustee's willful misconduct or gross negligence.

Section 8.06 Limitation on Suits. A beneficial owner may not pursue any remedy with respect to this Indenture or the Bonds unless (a) the beneficial owner gives the Trustee notice stating that an Event of Default has occurred and is continuing, (b) the beneficial owners of at least 25% in principal amount of the outstanding Bonds make a written request to the Trustee to exercise the powers granted herein in an Event of Default and to pursue such remedy in its or their name or names, (c) such beneficial owner or beneficial owners offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense reasonably anticipated to be incurred (d) the Trustee declines to comply with the request, or has failed to do so, within sixty (60) days after receipt of the request and the offer of indemnity, and (e) no direction inconsistent with such request has been given to the Trustee during such sixty (60) day period by beneficial owners of a majority in principal amount of the outstanding Bonds or the Credit Facility Provider.

The provisions of the first paragraph of this Section are conditions precedent to the exercise by any beneficial owner of any remedy hereunder. The exercise of such rights is further subject to the provisions of Sections 8.04, 8.05 and 8.07. No one or more beneficial owners shall have any right in any manner whatever to enforce any right under this Indenture, except in the manner herein provided. All proceedings at law or in equity with respect to an Event of Default shall be instituted and maintained in the manner herein provided for the equal and ratable benefit of the beneficial owners of all outstanding Bonds.

A beneficial owner may not use this Indenture to prejudice the rights of another Owner or to obtain a preference or priority over any other Owner.

Section 8.07 Rights of Owners To Receive Payment. Notwithstanding any other provision of this Indenture, the right of any beneficial owner to receive payment of principal of and interest on a Bond, on or after the due dates expressed in the Bond, or the purchase price of a Bond on or after the date for its purchase as provided in the Bond, or to bring suit for the enforcement of any such payment on or after such dates, shall not be impaired or affected without the consent of such beneficial owner and shall be absolute and unconditional.

Section 8.08 Collection Suit by Trustee. If an Event of Default under Section 8.01(a), (b), (c) or (d) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust for the whole amount remaining unpaid.

Section 8.09 Trustee May File Proofs of Claim.

(a) In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding under Bankruptcy Law relating to the Issuer, the Credit Facility Provider or any other obligor upon the Bonds, the Trustee (whether or not the principal of the Bonds shall then be due and payable by acceleration or otherwise, and whether or not the Trustee shall have made any demand upon the Issuer or the Credit Facility Provider for the payment of overdue principal, redemption premium, if any, and interest) shall be entitled and empowered, by intervention in such proceeding or other means:

(i) to file and prove a claim for the whole amount of the principal, redemption premium, if any, and interest owing and unpaid in respect of the outstanding Bond or for breach of this Indenture or the other Bond Documents and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Owners allowed in such proceeding; and

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and

(iii) Any receiver, assignee, trustee, liquidator, sequestrator or similar official in any such judicial proceeding is hereby authorized by each beneficial owner to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to the holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 9.06.

(b) No provision of this Indenture empowers the Trustee to authorize or consent to or accept or adopt on behalf of any beneficial owner of the Bonds any plan of reorganization, arrangement, adjustment or composition affecting any of the Bonds or the rights of any beneficial owner thereof, or to authorize the Trustee to vote in respect of the claim of any beneficial owner in any proceeding described in subsection (a) of this Section.

Section 8.10 Priorities. If the Trustee collects any money pursuant to this Article other than (i) moneys drawn under the Credit Facility or (ii) remarketing proceeds that shall be applied solely to payment of the Bonds secured thereby, it will pay out the money in the following order:

FIRST: To the Trustee for amounts to which it is entitled under this Indenture to the extent set forth in Section 9.06.

SECOND: To Owners for amounts due and unpaid on the Bonds, including any Pledged Bonds, for principal, purchase price and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Bonds for principal, purchase price and interest, respectively.

THIRD: To the Credit Facility Provider to the extent the Credit Facility Provider certifies (after inquiry from the Trustee) to the Trustee (upon which certification the Trustee may conclusively rely) that the Issuer is indebted to the Credit Facility Provider under the Credit Facility Agreement between the Issuer and the Credit Facility Provider under which the Credit Facility was issued.

FOURTH: To the Issuer.

In the event of a declaration of acceleration of principal and accrued interest by the Trustee pursuant to Section 8.02, the Trustee may fix a payment date for any payment to the Owners pursuant to such Section 8.02.

Section 8.11 Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of a bond to pay the costs of such suit. Nothing contained in this Indenture shall be deemed to constitute an undertaking by the Trustee to pay the costs of such suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a beneficial owner pursuant to Section 8.06 or a suit by beneficial owners of more than 10% in principal amount of the Bonds.

Section 8.12 Marshaling of Assets. Upon the occurrence of an Event of Default, all moneys in all Funds (other than moneys in the Rebate Account) shall be available to be utilized by the Trustee in accordance with this Article. The rights of the Trustee under Section 9.06 shall be applicable. During the continuance of any such Event of Default, all provisions of this Indenture relating to the utilization of Funds, including but not limited to those set out in Article V, shall be superseded by this Article. Subsequent to the curing or waiver of any such Event of Default, the provisions of this Indenture relating to utilization of Funds, including the provisions of Article V, shall be reinstated.

Section 8.13 Notice and Opportunity to Cure Certain Defaults. No default under Section 8.01(d) (other than the occurrence of a Determination of Taxability, to which this Section 8.13 shall not be applicable) shall constitute an Event of Default until written notice of such default shall have been given to the Issuer by the Trustee or by the Owners of at least twenty-five percent (25%) in aggregate principal amount of the outstanding Bonds, and the Issuer shall have had thirty (30) days after receipt of such notice to correct such default or cause such default to be corrected, and shall have failed to do so. In the event, however, that the default be such that it cannot be corrected within such thirty (30) day period, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within such period and diligently pursued (as determined by the Trustee and with the consent of the Credit Facility Provider) until the default is corrected. The Trustee shall send a copy of each such notice to the Credit Facility Provider, but receipt of such notice by the Credit Facility Provider shall not be a condition precedent to further action by the Trustee.

Section 8.14 Restoration of Rights and Remedies. If the Trustee or any Owner has instituted any proceeding to enforce any right or remedy under this Indenture or the Bonds, and any such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or such Owner, then the Issuer, the Trustee and the Owners shall, subject to any determination in such proceeding, be restored to their former positions hereunder, and all rights and remedies of the Trustee and the Owners shall continue as though no such proceeding had been instituted.

Section 8.15 Notice of Events of Default. If a Credit Facility is in effect and an Event of Default occurs of which the Trustee has or is deemed to have notice under Section 9.02(k), the Trustee shall give prompt notice thereof to the Credit Facility Provider. If a Credit Facility is not in effect, the Trustee, within ninety (90) days after it is deemed to have notice under Section 9.02(k) (unless such Event of Default has been cured or waived), shall give notice of such Event of Default to the Depository, provided, however, that except in the instance of an Event of Default under Section 8.01(a) or (b), the Trustee may withhold such notice if and so long as the Trustee in good faith determines that the withholding of such notice is in the interests of Owners, and provided, further, that notice to the Depository of any Event of Default under Section 8.01(d) shall be subject to the provisions of Section 8.13 and shall not be given until the grace period has expired.

ARTICLE IX
TRUSTEE AND REMARKETING AGENT

Section 9.01 Duties of Trustee.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise its rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default,

(1) the Trustee need perform only those duties that are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee, and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Trustee that conform to the requirements of this Indenture. However, the Trustee is under a duty to examine the certificates and opinions to reasonably determine whether they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(1) this paragraph does not limit the effect of paragraph (b) of this Section 9.01,

(2) the Trustee is not liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Trustee was grossly negligent in ascertaining the pertinent facts, and

(3) the Trustee is not liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 8.05.

(d) The Trustee may refuse to perform any duty or exercise any right or power unless it receives indemnity satisfactory to it against any loss, liability or expense, but the Trustee may not require indemnity as a condition to declaring the principal of and interest on the Bonds to be due immediately under Section 8.02 while the Credit Facility is in effect or to drawing on the Credit Facility or to paying principal and interest or purchase price when due and payable.

(e) The Trustee shall not be liable for interest on any cash (including unredeemed Bond balances) held by it except as the Trustee may agree with the Issuer.

(f) The Trustee may rely on an Issuer Representative's certificate as to whether an Act of Bankruptcy has occurred.

(g) Except as otherwise provided herein, the Trustee shall draw moneys under the Credit Facility in accordance with the terms thereof to the extent required to make payments of the purchase price of Bonds tendered or deemed tendered for purchase pursuant to Article IV hereof, and shall immediately apply such moneys to make payment of the purchase price.

(h) The Trustee shall maintain records of all investments and disbursements of proceeds in the funds and accounts established pursuant to this Indenture through the date ending seven (7) years following the date on which all of the Bonds have been retired.

(i) Every provision of this Indenture that in any way relates to the Trustee is subject to all of the foregoing paragraphs of this Section.

Section 9.02 Rights of Trustee. Subject to the foregoing Section:

(a) The Trustee may rely and is protected in acting or refraining from acting upon any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require a certificate of an officer or officers of the Issuer or an Opinion of Counsel. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on the certificate or Opinion of Counsel.

(c) The Trustee may perform any act permitted or required by this Indenture, including making any payment with respect to the Bonds, registering any transfer of any interest in the Bonds and drawing on the Credit Facility, through agents or co-trustees. The Trustee will not be responsible for the misconduct or negligence of any agent or co-trustee appointed by it with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith, which it believes to be authorized or within its rights or powers.

(e) The Trustee is under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the beneficial owners unless such beneficial owners have offered to the Trustee security or indemnity satisfactory to the Trustee as to its terms, coverage, duration, amount and otherwise with respect to the costs, expenses and liabilities which may be incurred by it in compliance with such request or direction, and the provision of such indemnity shall be mandatory for any remedy taken upon direction of the beneficial owners of a majority in aggregate principal amount of the Bonds.

(f) Any request, direction, order or demand of the Issuer under this Indenture shall be sufficiently evidenced by an officer's certificate (unless other evidence thereof is specifically prescribed) and any resolution of the Issuer may be sufficiently evidenced by a copy thereof certified by the Secretary or an authorized representative of the Issuer.

(g) Whenever in the administration of this Indenture the Trustee deems it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence thereof is specifically prescribed) may, in the absence of bad faith on its part, rely upon an officer's certificate.

(h) The Trustee may consult with counsel and the written advice of such counsel or an Opinion of Counsel shall be full and complete authorization and protection for any action taken, suffered or omitted by it in good faith and in accordance with such advice or opinion.

(i) The Trustee is not required to make any inquiry or investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit and, if the Trustee determines to make such further inquiry or investigation, it is entitled to examine the books, records and premises of the Issuer, in person or by agent or attorney.

(j) The Trustee may execute any of its trusts or powers or perform any duties under this Indenture either directly or by or through agents or attorneys, and may in all cases pay, subject to reimbursement as provided in Section 9.06, such reasonable compensation as it deems proper to all such agents and attorneys reasonably employed or retained by it, and the Trustee shall not be responsible for any misconduct or negligence of any agent or attorney appointed with due care by it.

(k) The Trustee is not required to take notice or deemed to have notice of any default or Event of Default hereunder, except Events of Default under Section 8.01(a), (b) and (c), unless a Responsible Officer of the Trustee has actual knowledge thereof or has received notice in writing of such default or Event of Default from the Issuer, the Credit Facility Provider or the beneficial owners of at least 25% in aggregate principal amount of the outstanding Bonds, and in the absence of any such notice, the Trustee may conclusively assume that no such default or Event of Default exists.

(l) The Trustee is not required to give any bond or surety with respect to the performance of its duties or the exercise of its powers under this Indenture.

(m) In the event the Trustee receives inconsistent or conflicting requests and indemnity from two or more groups of beneficial owners of Bonds, each representing less than a majority in aggregate principal amount of the outstanding Bonds, pursuant to the provisions of this Indenture, the Trustee, in its sole discretion, may determine what action, if any, shall be taken.

(n) The Trustee's immunities and protections from liability and its right to indemnification in connection with the performance of its duties under this Indenture shall extend to the

Trustee's officers, directors, agents, attorneys and employees. Such immunities and protections and right to indemnification, together with the Trustee's right to compensation, shall survive the Trustee's resignation or removal, the discharge of this Indenture and final payment of the Bonds.

(o) The permissive right of the Trustee to take the actions permitted by this Indenture shall not be construed as an obligation or duty to do so; and

(p) Except for information provided by the Trustee concerning the Trustee, the Trustee shall have no responsibility for any information in any offering memorandum or other disclosure material distributed with respect to the Bonds, and the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds.

Anything in this paragraph notwithstanding, the Trustee shall draw upon the Credit Facility when required by this Indenture without the requirement of prior indemnity or repayment.

Section 9.03 Individual Rights of Trustee, etc. The Trustee in its individual, commercial banking or in any other capacity, may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action that any Owner may be entitled to take with like effect as if it were not Trustee. The Trustee in its commercial banking or in any other capacity, may also engage in or be interested in any financial or other transaction with the Issuer and may act as depository, trustee or agent for any committee of Owners secured hereby or other obligations of the Issuer as freely as if it were not Trustee.

Section 9.04 Trustee's Disclaimer. The Trustee makes no representation as to the validity, adequacy or correctness of this Indenture or the Bonds and it shall not be responsible for any statement in the Bonds other than its certificate of authentication, it shall not be accountable for the Issuer's use or application of the proceeds from the Bonds paid to the Issuer or for the use or application of any moneys paid over by the Trustee in accordance with any provisions of this Indenture. The Trustee makes no representations as to the value, condition or sufficiency of any assets pledged or assigned as security for the Bonds, the right, title or interest of the Issuer therein, the security provided thereby or by this Indenture, the technical or financial feasibility of the Project, the compliance of the Project with the Act, or the tax-exempt status of the Bonds.

Section 9.05 Notice of Defaults. If an event occurs that with the giving of notice or lapse of time or both would be an Event of Default, and if the event is continuing and if it is actually known to the Trustee, the Trustee shall mail promptly to the Credit Facility Provider notice of the event and mail such notice to the Depository within ninety (90) days after it occurs or, if later, promptly after it learns of such event. Except in the case of a default in payment on or purchase of any Bonds or a default under Section 8.01(g), the Trustee may withhold the notice to the Owners (but not the Credit Facility Provider or the Remarketing Agent) if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of Owners.

Section 9.06 Compensation and Indemnity of Trustee. For acting under this Indenture, the Trustee shall be entitled to payment of reasonable fees for its services and reimbursement of

advances, counsel fees and other expenses reasonably and necessarily made or incurred by the Trustee in connection with its services under this Indenture.

Upon an Event of Default, but only upon an Event of Default, the Trustee shall have a first lien upon the Trust Estate (exclusive of amounts held in the Rebate Account, amounts drawn on the Credit Facility, and remarketing proceeds and any other Available Moneys set aside for the payment of the principal of, purchase price of, and interest on the Bonds) for the foregoing reasonable fees, charges and expenses of the Trustee. When the Trustee incurs expenses or renders services after the occurrence of an Act of Bankruptcy with respect to the Issuer, the expenses and the compensation for the services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law. The rights of the Trustee under this Section shall survive the Trustee's resignation or removal and the termination of this Indenture.

Section 9.07 Eligibility of Trustee. Should Bank One, National Association (or its successor) resign or be removed, there shall at all times be a Trustee hereunder that is a corporation, trust company or banking association organized and doing business under the laws of the United States of America or of any state or the District of Columbia, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000 (or an affiliate of a corporation, trust company or banking association meeting that requirement which guarantees the obligations and liabilities of the proposed trustee), and subject to supervision or examination by federal or state banking authority. If such corporation, trust company or banking association publishes reports of condition at least annually, pursuant to law or the requirements of any supervising or examining authority above referred to, then for purposes of this Section, the combined capital and surplus of such corporation, trust company or banking association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 9.07, it shall resign promptly in the manner and with the effect specified in this Article.

Section 9.08 Replacement of Trustee. The Trustee may resign at any time by giving written notice to the Issuer, Credit Facility Provider and Remarketing Agent. The Issuer (on its own initiative) or the beneficial owners of a majority in principal amount of the Bonds may remove the Trustee (but only with the prior consent of the Credit Facility Provider when a Credit Facility is in effect) by giving written notice to the removed Trustee and may appoint a successor Trustee with the consent of the Issuer and Credit Facility Provider. If (a) the Trustee fails to comply with the foregoing Section 9.07, (b) the Trustee is adjudged a bankrupt or an insolvent, (c) a receiver or other public officer takes charge of the Trustee or its property or (d) the Trustee otherwise becomes incapable of acting, then (i) the Issuer, with the written consent of the Credit Facility Provider, or the Credit Facility Provider with the written consent of the Issuer, may remove the Trustee, or (ii) any beneficial owner, with the consent of the Issuer, may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Issuer, with the written consent of the Credit Facility Provider, shall promptly appoint a successor Trustee.

In each instance, such removal and appointment shall be accomplished by a written instrument or concurrent written instruments signed by the Issuer or the Credit Facility Provider or such Owners, as the case may be.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and the Issuer. Immediately thereafter, upon payment of all sums due to the retiring Trustee, the retiring Trustee shall execute and deliver an instrument transferring all properties, rights, powers and duties held by it as Trustee, including, in accordance with its terms, the Credit Facility, to the successor Trustee, the resignation or removal of the retiring Trustee shall then (but only then) become effective, and the successor Trustee shall, without further act become vested with all the estates, properties, rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall promptly give written notice of its appointment to the holders of all outstanding Bonds in the manner prescribed herein, unless such notice has previously been given.

No successor Trustee shall accept appointment as provided in this Section unless, as of the date of such acceptance, it is eligible and qualified under the provisions of Section 9.07.

If a successor Trustee does not take office within sixty (60) days after the retiring Trustee resigns or is removed, the retiring Trustee, the Issuer, the Credit Facility Provider or the Owners of a majority in principal amount of the Bonds may petition any court of competent jurisdiction for the appointment of a successor Trustee.

Notwithstanding the foregoing, no resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee hereunder.

The Issuer shall give written notice of each resignation or removal of the Trustee and each appointment of a successor Trustee to the Owners of outstanding Bonds and the Rating Agency. Each such notice shall include the name and address of the applicable corporate trust office of the successor Trustee.

Section 9.09 Duties of Remarketing Agent. The Remarketing Agent, as the Issuer's designee, will set the interest rates on the Bonds and perform the other duties provided for in this Indenture and in the Remarketing Agreement, and will remarket Bonds on behalf of the Issuer and will purchase such Bonds as provided in the Bonds, this Indenture hereof and in the Remarketing Agreement; provided, however, the Remarketing Agent shall never be required to advance its own funds for the purchase of Bonds. There may be separate Remarketing Agents for these functions. The Remarketing Agent may, for its own account or as broker or agent for others, deal in Bonds and may

do anything any other Owner may do to the same extent as if the Remarketing Agent were not serving as such.

Section 9.10 Eligibility of Remarketing Agent; Replacement. The Remarketing Agent will be a bank, trust company or member of the National Association of Securities Dealers, Inc. organized and doing business under the laws of the United States or any state or the District of Columbia.

The Remarketing Agent may resign under the conditions and in the manner in the Remarketing Agreement. The Issuer may remove the Remarketing Agent by notifying Remarketing Agent, Credit Facility Provider, Rating Agency and Trustee, but only with the prior consent of the Credit Facility Provider. Upon such resignation or removal, the Issuer may appoint a successor Remarketing Agent reasonably acceptable to the Credit Facility Provider by notifying Trustee, Rating Agency and the Credit Facility Provider of such appointment.

Section 9.11 Compensation of Remarketing Agent. The Remarketing Agent will not be entitled to any compensation from the Trustee or any property held under this Indenture but must make separate arrangements with the Issuer for compensation.

Section 9.12 Successor Trustee or Agent by Merger, etc. If the Trustee or Remarketing Agent consolidates with, merges or converts into, or transfers all or substantially all of the bond administration portion of its corporate trust assets to another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee or Remarketing Agent. Any such successor must nevertheless be eligible and qualified under the provisions of this Indenture.

Section 9.13 Appointment of Co-trustee. It is the purpose of this Indenture that there shall be no violation of the laws of any jurisdiction (including particularly the laws of the State) denying or restricting the right of banking corporations or associations to transact business as trustee in such jurisdiction. It is recognized that in case of litigation under this Indenture or the Credit Facility and in particular in case of the enforcement thereof on any default or Event of Default, or in the case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee or hold title to the properties, in trust, as herein granted, or take any action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint, with the written consent of the Issuer, an additional individual or institution as a separate or co-trustee. The following provisions of this Section apply only in the event it is necessary for such reasons to appoint such separate or co-trustee.

In the event that the Trustee is required to appoint an additional individual or institution as a separate or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate or co-trustee but only to the extent necessary to enable such separate or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate or co-trustee shall run to and be enforceable by either of them.

Should any instrument in writing from the Issuer be required by the separate or co-trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to him or it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer provided that such instrument does not materially or substantively alter the rights or responsibilities of the Issuer. In case any separate or co-trustee or a successor to either shall become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate or co-trustee. The Trustee shall not be liable or responsible for any actions or omissions of any co-trustee.

Section 9.14 Service as Trustee, Authenticating Agent and Paying Agent. In the event and for so long as the same entity shall serve hereunder as Trustee, authenticating agent and paying agent, any notice required to be given by, or any act to be taken by, such entity in any one of such capacities may be given to or by, or taken by, such entity in any one of its other capacities. It is the purpose of this provision to obviate the necessity for any such notice to be given to or by such single entity to itself in another capacity or capacities, and to permit such entity to act uniformly in any capacity in which it is named.

Section 9.15 No Liability for Clean-up of Hazardous Materials. In the event that the Trustee is required to acquire title to an asset for any reason, or take any managerial action of any kind in regard thereto, in order to carry out fiduciary or trust obligation for the benefit of another, which in the Trustee's sole discretion may cause the Trustee to be considered an "owner or operator" under the provisions of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. §9601, et seq., or otherwise cause the Trustee to incur liability under CERCLA or any other federal, state or local environmental law, the Trustee reserves the right to, instead of taking such action, either resign as Trustee or arrange for the transfer of the title or control of the asset to a court appointed receiver.

The Trustee shall not be liable to the Issuer, the Credit Facility Provider or the Owners for any environmental claims or contribution actions under any federal, state or local environmental law, rule or regulation by reason of the Trustee's actions and conduct as authorized, empowered and directed hereunder or relating to the discharge, release or threatened release of hazardous materials into the environment.

ARTICLE X
AMENDMENTS OF AND SUPPLEMENTS TO INDENTURE

Section 10.01 Without Consent of Owners. The Issuer and Trustee, with the prior consent of the Credit Facility Provider, may amend or supplement this Indenture (only by written instrument executed by the parties hereto) or the Bonds without notice to or consent of any Owner, subject to Section 10.02 hereof (but with notice to the Rating Agency, the Credit Facility Provider and the Remarketing Agent):

(a) to cure any ambiguity, inconsistency or formal defect or omission or correct or supplement any provision herein or in any supplemental indenture,

(b) to grant to or confer upon the Trustee for the benefit of the beneficial owners additional rights, remedies, powers or authority or security that may lawfully be granted to or conferred upon the beneficial owners or the Trustee that are not contrary to or inconsistent with this Indenture as then in effect or to subject to the pledge and lien of this Indenture additional revenues, properties or collateral,

(c) to subject to this Indenture additional collateral or to add other covenants and agreements of the Issuer, thereafter to be observed by the Issuer or to surrender any right or power herein reserved to or conferred upon the Issuer, which are not contrary to or inconsistent with this Indenture as then in effect,

(d) to modify this Indenture or the Bonds to permit qualification of this Indenture, if required, under the Trust Indenture Act of 1939 or the Securities Act of 1933, as from time to time amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States,

(e) to amend, modify, alter or replace the Letter of Representations as provided in Section 2.02,

(f) to evidence the succession of a new Trustee or the appointment by the Trustee or Issuer of a co-trustee,

(g) to make any change (including a change in Section 5.01 to reflect any amendment to the Code or interpretations by the Internal Revenue Service of the Code) that does not materially adversely affect the rights of any Owner, the Issuer or the Credit Facility Provider,

(h) to secure an initial rating or maintain an existing rating on the Bonds from a Rating Agency equal to the rating in effect on the Credit Facility Provider's unsecured obligations on similar terms.

The Trustee shall not be obligated to enter into any such supplemental indenture that adversely affects the Trustee's own rights, duties or immunities under this Indenture.

Section 10.02 With Consent of Owners or Credit Facility Provider. If an amendment of or supplement to this Indenture or the Bonds without any consent of Owners is not permitted by the preceding Section, the Issuer and Trustee may (with notice to the Rating Agency) enter into such amendment or supplement (only by written instrument executed by the parties hereto): (a) with the consent of the Owners of at least a majority in principal amount of the Bonds then outstanding with the consent of the Credit Facility Provider or (b) if the Credit Facility Provider is not in default under the Credit Facility, the Credit Facility Provider alone; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds so affected remain outstanding, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be outstanding for the purpose of any calculation of outstanding Bonds under this Section. However, without the consent of each Owner affected, no amendment or supplement (which terms do not include the resetting of interest rates by the Remarketing Agent as provided in this Indenture) may (a) extend the maturity of the principal of, or interest on, any Bond, the redemption of any Bond or the amount or manner of payment of the purchase price thereof, (b) reduce the principal amount of, or redemption premium on or rate of interest on, any Bond, or a change in the coin or currency in which such Bond is payable, (c) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) reduce the percentage of the principal amount of the Bonds required for consent to any amendment or supplement or waivers of the provisions of this Indenture, (e) impair the exclusion from gross income of interest on any Bond for purposes of federal income taxation, (f) deprive any Owner of the lien created by this Indenture on such property, (g) create a lien on or pledge of any part of the Trust Estate or the money or assets pledged under this Indenture or any part thereof, or (h) effect a change in the provisions of this Section 10.02. In addition, if moneys or U.S. Government Obligations have been deposited or set aside with the Trustee pursuant to Article VII for the payment of Bonds and those Bonds shall not have in fact been actually paid in full, no amendment to the provisions of that Article shall be made without the consent of the Owner of each of those Bonds affected; provided, however, that so long as the Credit Facility Provider is not in default of its obligation to make payments under the Credit Facility, the Credit Facility Provider shall be deemed to be the Owner of all Bonds then Outstanding for purposes of providing the foregoing consents without actual Owner approval.

Section 10.03 Effect of Consents.

(a) After an amendment or supplement becomes effective, it will bind every Owner unless it makes a change described in any of the lettered clauses of the preceding Section. In that case, the amendment or supplement will bind each Owner who consented to it and each subsequent holder of a Bond or portion of a Bond evidencing the same debt as the consenting Owner's Bond.

(b) Each supplemental indenture executed and delivered pursuant to the provisions of Section 10.02 shall take effect only when and as provided in this Section 10.03. Such supplemental indenture shall not be effective unless and until there shall have been filed with the Trustee (i) the written consents of Owners of the percentage of Bonds specified in Section 10.02 given as provided in Section 11.02, or of the Credit Facility Provider, as appropriate and (ii) the Opinion of Counsel described in Section 10.06. Any such consent shall be binding upon the Owner giving such consent and upon any

subsequent holder of such Bonds and of any Bonds issued in exchange therefor or in lieu thereof (whether or not such subsequent Owners have notice thereof), unless such consent is revoked in writing by the Owner giving such consent or a subsequent holder of such Bonds by filing such revocation with the Trustee prior to the date the Trustee receives the material required in subsections (i) and (ii) of this subsection.

Section 10.04 Notation on or Exchange of Bonds. If an amendment or supplement changes the terms of a Bond, the Trustee may place an appropriate notation on the Bond about the changed terms.

Section 10.05 Execution of Amendments and Supplements by Trustee. The Trustee shall sign any amendment or supplement to the Indenture or the Bonds authorized by this Article if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not, sign it. In signing an amendment or supplement, the Trustee shall be entitled to receive and will be fully protected in relying on an opinion of counsel stating that such amendment or supplement is authorized by this Indenture.

Section 10.06 Delivery of Opinion of Counsel with Respect to Supplemental Indentures. Subject to the provisions of Section 9.01, the Trustee in executing or accepting the additional trusts permitted by this Article or the modifications thereby of the trusts created by this Indenture may rely, and shall be fully protected in relying, on an Opinion of Counsel acceptable to it stating that (a) the execution of such supplemental indenture is authorized or permitted by this Indenture and (b) all conditions precedent to the execution and delivery of such supplemental indenture have been complied with, and an Opinion of Tax Counsel that the execution and performance of such supplemental indenture shall not, in and of itself, adversely affect the exclusion of interest on the Bonds from federal income tax. The Trustee may accept and rely upon such Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to the provisions of this Article complies with the requirements of this Article.

Section 10.07 Consents of Issuer and Remarketing Agent.

(a) Anything herein to the contrary notwithstanding, no amendments or supplements to this Indenture under this Article shall become effective unless and until the Issuer shall have consented to the execution and delivery of such supplement.

(b) No amendments or supplements to this Indenture affecting the rights or duties of the Remarketing Agent shall be made without first obtaining the written consent of such party.

Section 10.08 Exclusion of Certain Bonds. Bonds owned or held by or for the account of the Issuer (except for Pledged Bonds and Bonds with respect to which the Credit Facility Provider exercises voting rights) shall not be deemed outstanding for the purpose of consent or other action or any calculation of outstanding Bonds provided for in this Article, and the Issuer shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article or elsewhere in this Indenture. At the time of any consent or other action taken under this Article or

elsewhere in this Indenture, the Issuer shall furnish the Trustee an Officer's Certificate of the Issuer, upon which the Trustee may rely, describing all Bonds so to be excluded.

ARTICLE XI
MISCELLANEOUS

Section 11.01 Notices.

(a) Any notice, request, direction, designation, consent, acknowledgment, certification, appointment, waiver or other communication required or permitted by this Indenture or the Bonds must be in writing except as expressly provided otherwise in this Indenture or the Bonds. Unless otherwise provided herein, a written notice may be transmitted by facsimile machine using a number provided by the receiving party.

(b) Any notice or other communication shall be sufficiently given and deemed given when delivered by hand or mailed by first-class mail, postage prepaid, addressed as follows:

If to the Issuer:

University of Florida Research Foundation, Inc.
288 Grinter Hall
P.O. Box 115500
Gainesville, Florida 32611-5500
Attn: President

With a copy to:

Office of Vice President & General Counsel
123 Tigert Hall
P.O. Box 113125
Gainesville, Florida 32611
Attn: Vice President & General Counsel

If to the Trustee:

Bank One, National Association
10151 Deerwood Park Blvd.
Bldg. 200, Suite 250
Jacksonville, Florida 32256
Attn: Corporate Trust Department

If to the Remarketing Agent:

Lehman Brothers
1221 Brickell Avenue – 14th Floor

Miami, Florida 33131
Attn: Zachary Raymond

If to the Bank:

Wachovia Bank, National Association
225 Water Street, 4th Floor
Jacksonville, Florida 32202
Attn: Leslie Skipper

If to Rating Agency:

Moody's Investors Service
99 Church Street
New York, New York 10007
Attn: Public Finance Department
Structured Finance Group

If to the Depository:

As set forth in Section 4.10.

Any addressee may designate additional or different addresses for purposes of this Section by giving notice as described above.

(c) Upon gaining actual knowledge of the following, the Trustee will give any Rating Agency then rating the Bonds notice of a change in the identity of the Trustee, the Remarketing Agent or Credit Facility Provider, any change in interest rate modes and the duration or extension of the mode, the extension, substitution, expiration or termination of the Credit Facility, any material amendment or supplement to the Indenture or the Credit Facility, acceleration of the Bonds, or that all the Bonds have been redeemed or defeased.

Section 11.02 Owners' Consents, etc. Any consent or other instrument required by this Indenture to be signed by an Owner may be in any number of concurrent documents and must be signed by an Owner, Participant or other agent, thereto. Proof of the execution of such instrument or of the instrument appointing an agent and of the ownership of Bonds, if made in the following manner, shall be conclusive for any purposes of this Indenture with regard to any action taken by the Trustee under the instrument:

(a) The fact and date of a person's signing an instrument may be proved by the bond of any officer in any jurisdiction who by law has power to take acknowledgments within that jurisdiction that the person signing the writing acknowledged before the officer the execution of the writing, or by an affidavit of any witness to the signing.

(b) The fact of ownership of Bonds, the amount or amounts, numbers and other identification of such Bonds and the date of holding shall be proved in accordance with procedures established by the Depository, and the Trustee may establish a Record Date for the purpose of identifying Owners entitled to issue any such consent.

Section 11.03 Limitation of Rights. Nothing expressed or implied in this Indenture or the Bonds shall give any person other than the Trustee, Issuer, Remarketing Agent and Owners any legal or equitable right, remedy or claim under or with respect to this Indenture.

Section 11.04 Severability. If any term or provision of this Indenture or the Bonds shall be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions or in all jurisdictions, or in all cases because it conflicts with any other provision or provisions hereof or any constitution or statute or rule of public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatever, and such term and provision shall be valid and enforced to the fullest extent permitted by law.

Section 11.05 Payments Due on Non-Business Days; Acts to be Performed. Except as otherwise provided herein, if a payment date is not a Business Day, then payment may be made on the next succeeding Business Day, and no interest shall accrue for the intervening period. In any case where the last day by which an act may be performed hereunder shall not be a Business Day, then such act need not be performed by such day, but may be performed on the next succeeding Business Day with the same force and effect as if performed by the nominal date for such performance.

Section 11.06 Governing Law. This Indenture shall be governed by and construed in accordance with the laws of the State without regard to conflict of laws principles.

Section 11.07 Captions. The captions in this Indenture are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Indenture.

Section 11.08 No Recourse Against Issuer's Officers .

(a) No officer, agent or employee of the Issuer shall be individually or personally liable for any payment on the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds, but this Section shall not relieve an officer, agent or employee of the Issuer from the performance of any official duty provided by law or this Indenture.

(b) Notwithstanding anything to the contrary contained herein or in any of the Bonds or in any other instrument or document executed by or on behalf of the Issuer in connection herewith, no stipulation, covenant, agreement or obligation contained herein or therein shall be deemed or construed to be a stipulation, covenant, agreement, or obligation of any present or future member, officer, employee or agent of the Issuer, or of any incorporator, member, director, trustee, officer, employee or agent of any successor to the Issuer, in any such person's individual capacity, and no such

person, in his individual capacity, shall be liable personally for any breach or nonobservance of or for any failure to perform, fulfill or comply with any such stipulations, covenants, agreements or obligations, nor shall any recourse be had for the payment of the principal of or interest on any of the Bonds or for any claim based thereon or on any such stipulation, covenant, agreement, or obligation, against any such person, in his individual capacity, either directly or through the Issuer or any successor to the Issuer, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such person, in his individual capacity, is hereby expressly waived and released.

(c) Notwithstanding anything to the contrary contained herein or in any of the Bonds or in any other instrument or document executed by or on behalf of the Issuer in connection herewith, (i) the Issuer shall have no obligation to take action under this Indenture, the Bonds or such other instruments or documents, unless the Issuer is reasonably requested in writing by an appropriate person to take such action and is provided with indemnity and assurances satisfactory to it of payment of or reimbursement for any expenses (including reasonable attorneys' fees) in such action, (ii) neither the Issuer nor any officer, employee or agent of the Issuer shall be personally liable to the Trustee or any other person for any action taken by the Issuer or by its officers, agents or employees or for any failure to take action under this Indenture, the Bonds or such other instruments or documents, except that the Issuer agrees to take, or to refrain from taking, any action if so required by an injunction, other court order or judgment, or if required to comply with any final judgment and (iii) any judgment rendered against the Issuer for breach of its obligations under this Indenture, the Bonds or such other instruments or documents shall be payable solely from the revenues and proceeds pledged under the Indenture, and no personal liability or charge payable directly or indirectly from the general funds of the Issuer shall arise therefrom.

Section 11.09 Counterparts. This Indenture may be executed in any number of counterparts, each of which when so executed and delivered shall constitute an original, but all of which, when taken together, shall constitute but one and the same instrument, and shall become effective when copies hereof shall be delivered to each of the parties hereto, which copies, when taken together, bear the signatures of each of the parties hereto.


Section 11.10 Bonds Outstanding. Any percentage of Bonds, specified herein for any purpose, is to be figured on the unpaid principal amount thereof then Outstanding.

Section 11.11 Times. All references to time referred to herein are references to Eastern Standard Time or Eastern Daylight Saving Time, whichever is in effect and recognized in the state of the Depository.

Section 11.12 Successors and Assigns. All the covenants, promises and agreements in this Indenture contained by or on behalf of the Issuer, or by or on behalf of the Trustee, shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

IN WITNESS WHEREOF, the undersigned have set their hands as of the date first written.

**UNIVERSITY OF FLORIDA RESEARCH
FOUNDATION, INC.**

By: 
Its: President

**BANK ONE, NATIONAL ASSOCIATION,
as Trustee**

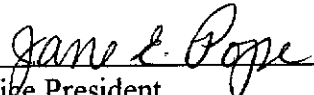
By: 
Its: Vice President

EXHIBIT A

Form of Bond

(See item #6 of the transcript)

EXHIBIT B

Capital Projects

THIS FIRST SUPPLEMENTAL TRUST INDENTURE, made and entered into as of the first day of August, 2004, by and between **UNIVERSITY OF FLORIDA RESEARCH FOUNDATION, INC.**, a Florida not for profit corporation (the "Issuer"), and **J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION** (successor to Bank One, National Association), a national banking association organized and existing under the laws of the United States of America and duly authorized to accept and execute trusts, with its designated place of business located in Jacksonville, Florida, as trustee (the "Trustee").

W I T N E S S E T H :

WHEREAS, the parties hereto entered into a Trust Indenture, dated as of August 1, 2003 (the "Indenture"), that secures payment of the Issuer's Capital Improvement Revenue Bonds, Series 2003 (the "Bonds"), currently outstanding in the aggregate principal amount of thirty-five million dollars (\$35,000,000); and

WHEREAS, the Issuer has elected to convert the Bonds to bear interest at a fixed rate and following the such conversion, the irrevocable direct-pay letter of credit #SM204654W issued by Wachovia Bank, National Association for the benefit of the holders of the Bonds, will be replaced by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation; and

WHEREAS, the Issuer has determined to amend the Indenture to provide for certain bond insurer provisions and other provisions related to the conversion pursuant to this First Supplemental Trust Indenture (the "First Supplemental Indenture"); and

WHEREAS, the Issuer, pursuant to a resolution adopted on May 21, 2004, has duly authorized the conversion and the execution and delivery of this First Supplemental Indenture and other documents related thereto; and

WHEREAS, the provisions of Sections 3.07 and 10.01 of the Indenture relating to requirements for the conversion of the Bonds and the amendment of the Indenture have been satisfied as of the date of delivery hereof; and

WHEREAS, all acts and things have been done and performed that are necessary to make this First Supplemental Indenture a valid agreement of the Issuer in accordance with its terms;

NOW, THEREFORE, in consideration of the premises and of the acceptance by the Trustee of the trusts hereby created, the Issuer covenants and agrees with the Trustee, for the benefit of the holders from time to time of the Bonds, as follows:

Section 1. Supplemental Indenture; Limitation. This First Supplemental Indenture amends and supplements the Indenture, and is executed in accordance with Section 10.01 of the Indenture and pursuant to the provisions of the Act. All provisions of the Indenture, as amended hereby, are hereby incorporated by reference and shall remain in full force and effect and shall be applicable, equally and ratably, to all of the Bonds outstanding.

Section 2. Definitions. Except as amended hereby, all terms that are defined in the Indenture shall have the same meanings in this First Supplemental Indenture. Nonetheless, the terms set forth below shall have the following meanings for purposes of this First Supplemental Indenture, unless the context clearly otherwise requires:

“Bond Insurance Policy” shall mean the financial guaranty insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

“Bond Insurer” shall mean Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance corporation, its successors and assigns, acting as such under the Bond Insurance Policy issued to insure the payment when due of the principal of and interest on the Bonds.

“Bond Insurer Default” shall mean any one or more of the following events:

(a) the Bond Insurer shall fail to pay a claim properly made under the terms of the Bond Insurance Policy; or

(b) the Bond Insurer shall declare that it is not obligated to honor future claims on the Bond Insurance Policy; or

(c) an Act of Bankruptcy shall occur with respect to the Bond Insurer, or the Bond Insurer or a receiver (or other similar person with authority to control the disposition of the Bond Insurer's assets) shall declare that the Bond Insurer will not be able to pay in full, on a timely basis, future claims on the Bond Insurance Policy.

A Bond Insurer Default shall “exist” if a Bond Insurer Default shall have occurred and be continuing.

"First Supplemental Indenture" shall mean this First Supplemental Trust Indenture dated as of August 1, 2004, between the Issuer and the Trustee.

Section 3. Amendments to the Indenture.

(a) The definition of the term “**Qualified Investments**” in the Indenture is hereby amended and restated in its entirety to read as provided in Exhibit A attached hereto and incorporated herein.

(b) The Indenture is hereby amended to add a new section 4.16 in lieu of Sections 4.13 through 4.15 with respect to the Bonds bearing interest at a Fixed Rate as follows:

“Section 4.16. Payment of Bonds following a Fixed Rate Conversion and Substitution of a Bond Insurance Policy for a Letter of Credit as a Credit Facility. In lieu of the provisions set forth in Sections 4.13 through 4.15 and 5.08 hereof, following the conversion of the Bonds to a Fixed Rate and substitution of the Letter of Credit with a Bond Insurance Policy as a Credit Facility, the Issuer and the Trustee agree to comply with the payment procedures established by the Bond Insurer as Credit Facility Provider. The Issuer shall pay into the Sinking Fund, not less than one day prior to each Payment Date, an amount sufficient to make payments of principal, interest and redemption premium, if any, on the Bonds. Failing receipt of such funds, the Trustee shall, following the payment procedures of the Bond Insurer, provide notice of any payment deficiency and provide the Bond Insurer with payment instructions. Payments shall be made first from funds made available by the Issuer and second, from funds provided by the Bond Insurer.”

Section 4. Bond Insurance. The provisions contained in Exhibit A – “Bond Insurance” are a part of this First Supplemental Indenture and are specifically incorporated into this First Supplemental Indenture through this reference. Each such provision in the attached Exhibit A shall

modify and take precedence over any language to the contrary with respect to each section of this First Supplemental Indenture or of the Indenture to which it specifically relates.

Section 5. Issuer Covenants.

(a) As soon as practicable and in any event with 180 days after the end of each fiscal year, the Issuer shall deliver or cause to be delivered to the Bond Insurer current audited financial statements (in reasonable detail reflecting its operations during such fiscal year, including, without limitation, an annual statement of income and fund balances, a statement of financial position, statements of financial condition, notes to financial statements, and any other information request by the Bond Insurer) for the Issuer and the University, all to be prepared in accordance with GASB applied on a consistent basis, audited without scope limitations by an independent certified public accountant of recognized standing acceptable to the Bond Insurer, and in form and content satisfactory to the Bond Insurer.

(b) The Issuer shall not create or suffer to exist any mortgage, lien or security interest of any kind on the Project securing payment of any of its obligations, unless there is concurrently granted in favor of the Trustee a similar mortgage, lien or security interest on the Project to secure the Bonds.

(c) The Issuer will not create, incur, assume or otherwise become obligated with respect to any additional indebtedness payable on an equal or prior basis with the Bonds without the consent of the Bond Insurer, unless there shall have been filed, with the Trustee and the Bond Insurer, a certificate of the Chief Financial Officer of the Issuer verifying that the ratio of pro-forma debt to Undesignated Unrestricted Net Assets of the Issuer is not greater than 75% .

Section 6. Description of the Bonds. The Bonds shall: (i) be issued in Book-Entry form, (ii) include serial and term bonds, (iii) be dated August 2, 2004, (iv) be in denominations of \$5,000 or integral multiples thereof, (v) mature on September 1, 2033, (vi) pay interest commencing September 1, 2004 and each March 1 and September 1 thereafter and (vii) be subject to redemption and mature on September 1 in the years, amounts and at the interest rates as set forth in Exhibit B hereto.

Section 7. Counterparts. This First Supplemental Indenture may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original; but such counterparts shall together constitute but one and the same instrument.

Section 8. Conflict. As supplemented hereby, the Indenture is in all respects ratified and confirmed, and the Indenture as so supplemented hereby shall be read, taken and construed as one and the same instrument. In the event of a conflict the terms hereof shall prevail.

IN WITNESS WHEREOF, the University of Florida Research Foundation, Inc. has caused this First Supplemental Indenture to be executed by its President and J.P. Morgan Trust Company, National Association, as Trustee, has caused this First Supplemental Indenture to be signed in its name and on its behalf by one of its officers duly authorized, all as of the date first written.

**UNIVERSITY OF FLORIDA
RESEARCH FOUNDATION, INC.**

By: _____
Its: President

**J.P. MORGAN TRUST COMPANY,
NATIONAL ASSOCIATION**

By: _____
Its:

CONSENT OF BOND INSURER

Ambac Assurance Corporation, as Bond Insurer with respect to the Bonds and as provided in Section 10.01 of the Indenture, does hereby consent to the modifications to the Indenture provided in the foregoing First Supplemental Indenture.

AMBAC ASSURANCE CORPORATION,
Bond Insurer

By: _____

EXHIBIT A

FINANCIAL GUARANTY INSURANCE

SECTION 1

BOND INSURER CONSENTS

A. Consent of Bond Insurer.

Provided no Bond Insurer Default exists, any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner that affects the rights of the Bond Insurer hereunder without the prior written consent of the Bond Insurer. The Bond Insurer reserves the right to charge the Issuer a fee for any consent or amendment to the Indenture while the Bond Insurance Policy is outstanding.

B. Consent of Bond Insurer in Addition to Holder Consent.

Unless otherwise provided in this section or a Bond Insurer Default exists, the Bond Insurer's consent shall be required in addition to Holder consent, when required, for the following purposes: (i) execution and delivery of any amendment, supplement or change to or modification of the Indenture; (ii) removal of the Trustee and selection and appointment of any successor trustee; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Holder consent.

C. Consent of Bond Insurer in the Event of Insolvency

Provided no Bond Insurer Default exists, any reorganization or liquidation plan with respect to the Issuer must be acceptable to the Bond Insurer and in the event of any reorganization or liquidation, the Bond Insurer shall have the right to vote on behalf of all Holders who hold the Bond Insurer-insured Bonds absent a default by the Bond Insurer under the applicable Bond Insurance Policy insuring such Bonds.

D. Consent of Bond Insurer Upon Default.

Provided no Bond Insurer Default exists, anything in this Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined herein, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders or the Trustee for the benefit of the Holders under this Indenture, including, without limitation: (i) the right to accelerate the principal of the Bonds as described in the Indenture, and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default.

E. Acceleration Rights.

Provided no Bond Insurer Default exists, upon the occurrence of an Event of Default, the Trustee may, with the consent of the Bond Insurer, and shall, at the direction of the Bond Insurer or 25% of the Holders with the consent of the Bond Insurer, by written notice to the Issuer and the Bond Insurer, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be

immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding.

SECTION 2

NOTICES/INFORMATION TO BE GIVEN TO BOND INSURER

A. Notices to be sent to the attention of the SURVEILLANCE DEPARTMENT:

1. While the Bond Insurance Policy is in effect, the Issuer or the Trustee, as appropriate, shall furnish to Bond Insurer, upon request, the following:

(a) a copy of any financial statement audit and or annual report of the Issuer and the University; and

(b) such additional information it may reasonably request.

Upon request, such information shall be delivered at the Issuer's expense to the attention of the Surveillance Department, unless otherwise indicated.

2. A copy of any notice to be given to the Owners of the Bonds, including without limitation, notice of any redemption of or defeasance of Bonds, and any certificate rendered pursuant to this Indenture relating to the security for the Bonds.

3. To the extent that the Issuer has entered into a continuing disclosure agreement with respect to the Bonds, the Bond Insurer shall be included as party to be notified.

B. Notices to be sent to the attention of the GENERAL COUNSEL OFFICE:

1. The Trustee or Issuer, as appropriate, shall notify Bond Insurer of any failure of the Issuer to provide relevant notices, certificates, etc.

2. Notwithstanding any other provision of this Indenture, the Trustee or Issuer, as appropriate, shall immediately notify the Bond Insurer if at any time there are insufficient moneys to make any payments of principal and, or interest as required and immediately upon the occurrence of any Event of Default hereunder.

C. Other Information to be given to Bond Insurer:

1. The Issuer will permit the Bond Insurer to discuss the affairs, finances and accounts of the Issuer or any information the Bond Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Issuer. The Trustee or Issuer, as appropriate, will permit Bond Insurer to have access to and to make copies of all books and records relating to the Bonds at any reasonable time.

2. The Bond Insurer shall have the right to direct an accounting at the Issuer's expense, and the Issuer's failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from the Bond Insurer shall be deemed a default hereunder, provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any registered owner of the Bonds.

SECTION 3

QUALIFIED INVESTMENTS

A. The following shall be Qualified Investments for all purposes, including defeasance investments in refunding escrow accounts:

- (1) Cash (insured at all times by the Federal Deposit Insurance Corporation),
- (2) Obligations or obligations guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States including:

- United States treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

B. The following shall be Qualified Investments for all purposes, other than defeasance investments in refunding escrow accounts.

- (1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration
- Federal Financing Bank

- (2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
 - Obligations of the Resolution Funding Corporation (REFCORP)
 - Senior debt obligations of the Federal Home Loan Bank System
 - Senior debt obligations of other Government Sponsored Agencies approved by the Bond Insurer
- (3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (4) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;
- (5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;
- (6) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the Issuer prior to maturity or as to which irrevocable instructions have been given by the Issuer to call on the date specified in the notice; and
- (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or
- (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such Irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- (7) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P;
- (8) Investment agreements approved in writing by Bond Insurer (supported by appropriate opinions of counsel); and

- (9) Other forms of investments (including repurchase agreements) approved in writing by the Bond Insurer.

C. The value of the above investments shall be determined as follows:

- (1) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers.
- (2) As to certificates of deposit and bankers' acceptances; the face amount thereof, plus accrued interest thereon; and
- (3) As to any investment not specified above; the value thereof established by prior agreement among the Issuer, the Trustee, and the Bond Insurer.

SECTION 4

DEFEASANCE

- A.** The definition of "Outstanding" obligations, or any like concept shall specifically include obligations that fall into the category described in B below.
- B.** Notwithstanding anything herein to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by Bond Insurer pursuant to the Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Issuer to the registered owners shall continue to exist and shall run to the benefit of Bond Insurer, and Bond Insurer shall be subrogated to the rights of such registered owners.

SECTION 5

PAYMENT PROCEDURE PURSUANT TO THE FINANCIAL GUARANTY INSURANCE POLICY

- A. As long as the Bond Insurance Policy shall be in full force and effect, the Issuer and the Trustee agree to comply with the following provisions:
- (a) At least one (1) day prior to all Interest Payment Dates the Trustee will determine whether there will be sufficient funds in the accounts to pay the principal of or interest on the Bonds on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such accounts, the Trustee shall so notify Bond Insurer. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest, or both. If the Trustee has not so notified Bond Insurer at least one (1) day prior to an Interest Payment Date, Bond Insurer will make payments of principal or interest due on the Bonds on or before the first (1st) day next following the date on which Bond Insurer shall have received notice of nonpayment from the Trustee.
 - (b) the Trustee shall, after giving notice to Bond Insurer as provided in (a) above, make available to Bond Insurer and, at Bond Insurer's direction, to The Bank of New York, in New York, New York, as insurance trustee for Bond Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Issuer maintained by the Trustee and all records relating to the funds and accounts maintained under this Indenture.
 - (c) the Trustee shall provide Bond Insurer and the Insurance Trustee with a list of registered owners of Bonds entitled to receive principal or interest payments from Bond Insurer under the terms of the Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Bonds entitled to receive full or partial interest payments from Bond Insurer and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the registered owners of Bonds entitled to received full or partial principal payments from Bond Insurer.
 - (d) the Trustee shall, at the time it provides notice to Bond Insurer pursuant to (a) above, notify registered owners of Bonds entitled to receive the payment of principal or interest thereon from Bond Insurer (i) as to the fact of such entitlement, (ii) that Bond Insurer will remit to them all or a part of the interest payments next coming due upon proof of Holder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from Bond Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of Bond Insurer) for payment to the Insurance Trustee, and not the Trustee and (iv) that should they be entitled to receive partial payment of principal from Bond Insurer, they must surrender their Bonds for payment thereon first to the Trustee who shall note on such Bonds the portion of the principal paid by the Trustee and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.
 - (e) in the event that the Trustee has notice that any payment of principal of or interest on a Bond that has become due for payment and that is made to a Holder by or on behalf of

the Issuer has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time Bond Insurer is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to Bond Insurer its records evidencing the payments of principal of and interest on the Bonds which have been made by the Trustee and subsequently recovered from registered owners and the date on which such payments were made.

- (f) in addition to those rights granted Bond Insurer under this Indenture, Bond Insurer shall, to the extent it makes payment of principal of or interest on Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note Bond Insurer's rights as subrogee on the registration books of the Issuer maintained by the Trustee upon receipt from Bond Insurer of proof of the payment of interest thereon to the registered owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note Bond Insurer's rights as subrogee on the registration books of the Issuer maintained by the Trustee upon surrender of the Bonds by the registered owners thereof together with proof of the payment of principal thereof.

SECTION 6

TRUSTEE-RELATED PROVISIONS

- A. The Trustee may be removed at any time, at the request of Bond Insurer, for any breach of the trust set forth in the Indenture. If no Bond Insurer Default exists, neither the Trustee nor any Trustee's Agent may be removed without consent of the Bond Insurer.
- B. The Bond Insurer shall receive prior written notice of any Trustee resignation.
- C. Every successor Trustee appointed pursuant to the Indenture shall be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$75,000,000 and acceptable to Bond Insurer. If no Bond Insurer Default exists, neither the Trustee nor any Trustee's Agent may be appointed without consent of the Bond Insurer.
- D. Notwithstanding any other provision of this Indenture, in determining whether the rights of the Holders will be adversely affected by any action taken pursuant to the terms and provisions of this Indenture, the Trustee shall consider the effect on the Holders as if there were no Bond Insurance Policy.
- E. Notwithstanding any other provision of this Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to Bond Insurer, shall be appointed.

SECTION 7

INTERESTED PARTIES

A. Bond Insurer As Third-Party Beneficiary.

To the extent that this Indenture confers upon or gives or grants to Bond Insurer any right, remedy or claim under or by reason of this Indenture, Bond Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right remedy or claim conferred, given or granted hereunder.

B. Parties Interested Herein

Nothing in this Indenture expressed or implied is intended or shall be construed to confer upon, or give or grant to, any person or entity, other than the Issuer, the Issuer, the Trustee, Bond Insurer, and the Owners of the Bonds, any right, remedy or claim under or by reason of this Indenture or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Indenture contained by and on behalf of the Issuer shall be for the sole and exclusive benefit of the Issuer, the Trustee, Bond Insurer, and the Owners of the Bonds.

EXHIBIT B

\$13,400,000 Serial Bonds

<u>Maturity</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2006	\$800,000	2.125%
2007	\$800,000	2.450%
2008	\$800,000	2.850%
2009	\$800,000	3.150%
2010	\$800,000	3.350%
2011	\$900,000	3.550%
2012	\$1,000,000	3.750%
2013	\$1,000,000	3.900%
2014	\$1,000,000	4.000%
2015	\$1,000,000	4.150%
2016	\$1,100,000	4.300%
2017	\$1,100,000	4.400%
2018	\$1,100,000	4.500%
2019	\$1,200,000	4.550%

\$9,500,000 5.000% Term Bonds Due September 1, 2026

\$1,500,000 5.050% Term Bonds Due September 1, 2027

\$10,600,000 5.125% Term Bonds Due September 1, 2033

Optional Redemption.

(a) The Bonds maturing on September 1 in the years 2006 through 2014, inclusive, are not subject to redemption prior to their respective stated dates of maturity. The Bonds maturing in the years September 1, 2015 through September 1, 2019 are, at the option of the Issuer, subject to redemption prior to their stated dates of maturity, in whole or in part (and if in part, by lot or other method deemed fair and appropriate by the Trustee), on any date on or after September 1, 2014, at a redemption price of par plus accrued interest to the redemption date;

(b) The Bonds, or portions thereof, maturing on September 1, 2026, September 1, 2027 and September 1, 2033 are subject to redemption prior to their respective stated dates of maturity, at the option of the Issuer, in whole or in part (and if in part, by lot or other method deemed fair and appropriate by the Trustee), on any date on or after September 1, 2009 at a redemption price of par plus accrued interest to the redemption date.

Mandatory Redemption.

(a) The Bonds maturing on September 1, 2026 are subject to mandatory redemption prior to maturity at a redemption price of par plus accrued interest to the redemption date, on September 1 in the years and in the principal amounts for each year as set forth below:

<u>Year</u>	<u>Principal Amount</u>
2020	\$1,200,000
2021	\$1,300,000
2022	\$1,300,000
2023	\$1,400,000
2024	\$1,400,000
2025	\$1,400,000
2026*	\$1,500,000

* Maturity

(b) The Bonds maturing on September 1, 2033 are subject to mandatory redemption prior to maturity at a redemption price of par plus accrued interest to the redemption date, on September 1 in the years and in the principal amounts for each year as set forth below:

<u>Year</u>	<u>Principal Amount</u>
2028	\$1,600,000
2029	\$1,700,000
2030	\$1,700,000
2031	\$1,800,000
2032	\$1,900,000
2033*	\$1,900,000

*Final Maturity

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CONTINUING DISCLOSURE CERTIFICATE

THIS CERTIFICATE, dated August 2, 2004 (the “Certificate”), is made by the Issuer, as defined below in Section 1.

In order to permit Lehman Brothers, in the capacity as the Underwriter, to comply with the provisions of Rule 15c2-12 (as defined below) in connection with the public offering of the Bonds (as defined below), the Issuer, in consideration of the mutual covenants contained herein and other good and lawful consideration, hereby agrees for the sole and exclusive benefit of the Holders as follows:

Section 1. Definitions. Capitalized terms used but not defined herein as follows shall have the meaning ascribed to them in the Indenture.

“Bonds” shall mean the \$35,000,000 University of Florida Research Foundation, Inc. Capital Improvement Revenue Bonds, Series 2003.

“Holder” shall mean any registered owner of the Bonds and, if registered in the name of Cede & Co., through The Depository Trust Company (“DTC”), any beneficial owner (as such term is used by DTC to define a holder other than a nominee) of the Bonds, unless Rule 15c2-12, or an authoritative interpretation thereof by the SEC or its staff, does not require the Certificate to be for the benefit of such beneficial owners.

“Indenture” shall mean that certain Trust Indenture, dated as of August 1, 2003, between the Issuer and J.P. Morgan Trust Company, National Association (successor to Bank One, National Association) (the “Trustee”), as amended and supplemented by a First Supplemental Trust Indenture, dated as of August 1, 2004, between the Issuer and the Trustee, authorizing issuance of the Bonds, as amended from time to time.

“Issuer” shall mean the University of Florida Research Foundation, Inc.

“Material Events Disclosure” shall mean the information specified in Section 2(3) hereof.

“MSRB” shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934 as amended.

“**NRMSIR**” shall mean each nationally recognized municipal securities information repository with the meaning of Rule 15c2-12 and recognized by the SEC for purposes of Rule 15c2-12.

“**Rating Agency**” shall mean Standard & Poor’s Ratings Group, Moody’s Investors Service, Fitch or any other nationally recognized rating service which has assigned a rating on the Bonds.

“**Rule 15c2-12**” shall mean Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

“**SEC**” shall mean the Securities and Exchange Commission.

“**SID**” shall mean the Florida State Information Depository, if and to the extent it has been established and is in existence and operating as a state information depository within the meaning of Rule 15c2-12.

Section 2. Obligations to Provide Continuing Disclosure. (a) Information to be Provided to the Public. The Issuer hereby undertakes and hereby covenants to undertake, for the benefit of Holders of the Bonds, to make public and file or cause to be filed (i) not later than two hundred ten (210) days after the end of each of its fiscal years, commencing with the fiscal year ending June 30, 2004, the information set forth in subsection (1), and (ii) in a timely manner, the information set forth in subsections (2) and (3) below. Such undertaking is made to comply with Rule 15c2-12 and is intended to be construed to satisfy the requirements of said Rule.

(1) **Audited Financial Information.** A copy of the Issuer’s and University’s annual audited financial statements prepared in accordance with GASB. If audited financial statements are not available at the time required to be made public (and filed) as set forth herein, unaudited financial statements shall be made public (and filed) to be replaced by audited financial statements within fifteen (15) days after such audited financial statements become available for distribution.

(2) **Notice of Failure to Provide Annual Financial Information.** In a timely manner, notice of the failure of the Issuer to provide the information required by subsection (1) above within the times specified therefor.

(3) **Material Events Notices.** In a timely manner, notice of the following events relating to the Bonds, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Nonpayment related defaults;

- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting tax-exempt status of the Bonds;
- (vii) Modifications to rights of Holders;
- (viii) Bond calls (except mandatory scheduled redemption not otherwise contingent upon the occurrence of an event);
- (ix) Defeasances;
- (x) Release, substitution or sale of any part of the property securing repayment of the Bonds; and
- (xi) Rating changes.

(b) Means of Making Information Public.

(1) Information to be made public by the Issuer shall be transmitted in the following manner to one or more of the following entities as required by subsection (2) below:

(i) to each NRMSIR, designated from time to time by the SEC, by (1) electronic facsimile transmissions confirmed by first class mail, postage prepaid, or (2) first class mail, postage prepaid, or (3) by whatever other means as are mutually acceptable to the Issuer and the NRMSIR; and

(ii) to the SID, if and when a SID is created for the State of Florida, by (1) electronic facsimile transmissions confirmed by first class mail, postage prepaid, or (2) first class mail, postage prepaid, or (3) by whatever other means as are mutually acceptable to the Issuer and the SID; and

(iii) to the MSRB by (1) electronic facsimile transmission confirmed by first class mail, postage prepaid, or (2) first class mail, postage prepaid, or (3) by whatever other means as are mutually acceptable to the Issuer and the MSRB.

(2) Such information shall be transmitted to the following:

(i) all annual audited financial information described in subsection (a)(1) above shall be sent to all NRMSIR's and to the SID (if a SID is established for the State of Florida); and

(ii) all material event notices described in subsection (a)(3) above and notices of failure to provide annual financial information described in subsection (a)(2) above, and amendments related to such information made pursuant to subsection (c) hereof, shall be sent to each NRMSIR or to the MSRB, and to the SID (if a SID is established for the State of Florida).

Nothing in this subsection (b)(2) shall be construed to relieve the Issuer of its obligation to provide notices to the Holders if such notice is required by this Certificate.

(c) Amendment or Modification; Termination.

(1) This Certificate may be amended or modified from time to time only if (i) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Issuer, or type of business conducted, (ii) the undertaking, as amended, would have complied with the requirements of Rule 15c2-12 at the time of the issuance of the Bonds, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any change in circumstances, and (iii) the amendment does not materially impair the interests of the Holders, as determined either by a written opinion of nationally recognized bond or securities counsel, or by approving vote of the Holders pursuant to the terms of this Certificate at the time of the amendment.

The annual financial information containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to an undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison also should be quantitative.

(2) The Issuer reserves the right to terminate its obligation to provide the information described in subsection (a), above if and when the Issuer no longer remains an "obligated person" within the meaning of Rule 15c2-12.

(3) The Issuer's obligation to provide the information described in subsection (a) above shall terminate when no Bond remains outstanding under the terms of the Indenture.

(d) Default. In the event of a failure of the Issuer to comply with the above described disclosure provisions, any Registered Owner of a Bond may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Section. Default under this Certificate shall not be deemed an event of default under the Indenture for any other purpose, and the sole remedy under this Section in the event of any failure of the Issuer to comply with any provision of this Certificate shall be an action to compel performance.

Section 3. Parties in Interest. This Certificate is executed and delivered solely for the benefit of the Holders. No other person shall have any right to enforce the provisions hereof or any other rights hereunder.

Section 4. Governing Law. THIS CERTIFICATE SHALL BE GOVERNED BY THE LAWS OF THE STATE OF FLORIDA DETERMINED WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES.

IN WITNESS WHEREOF, the undersigned has duly authorized, executed and delivered this Certificate as of the 2nd day of August, 2004.

**UNIVERSITY OF FLORIDA
RESEARCH FOUNDATION, INC.**

By: _____
President

Accepted this 2nd day of August, 2004:

LEHMAN BROTHERS

By: _____
Vice President

APPENDIX D

Form of Bond Counsel Opinion

August 2, 2004

University of Florida Research Foundation, Inc. 288 Grinter Hall P.O. Box 115500 Gainesville, Florida 32611-5500	J.P. Morgan Trust Company, National Association, as Trustee 10151 Deerwood Park Blvd. Bldg. 400, 5 th Floor Jacksonville, Florida 32256
Ambac Assurance Corporation One State Street Plaza New York, New York 10004	Lehman Brothers 399 Park Avenue New York, New York 10022

Re: \$35,000,000 University of Florida Research Foundation, Inc.
Capital Improvement Revenue Bonds, Series 2003

Ladies and Gentlemen:

We are rendering this opinion as Bond Counsel for the University of Florida Research Foundation, Inc. (the “Issuer”), in connection with the conversion of the captioned bonds (the “Bonds”) on August 2, 2004, to bear interest at a Fixed Rate, the establishment by the Remarketing Agent of serial and term bond maturities (and related amortization installments) over the remaining life of the Bonds, the establishment of revised redemption premiums and no-call periods, and the delivery of a financial guaranty insurance policy issued by Ambac Assurance Corporation (the “Alternate Credit Facility”), all in accordance with the provisions of the Trust Indenture, dated as of August 1, 2003, between the Issuer and J.P. Morgan Trust Company, National Association (successor to Bank One, National Association), as trustee (the “Trustee”), as supplemented and amended by a First Supplemental Trust Indenture, dated as of August 1, 2004 (the “First Supplemental Indenture”), between the Issuer and the Trustee (collectively, the “Indenture”). Capitalized terms in this opinion shall have the meanings set forth in the Indenture.

University of Florida Research Foundation, Inc.
J.P. Morgan Trust Company, National Association
Ambac Assurance Corporation
Lehman Brothers

We have examined the Indenture and such other certifications and proofs as we deemed necessary to render this opinion.

Based on the foregoing, we are of the opinion that:

1. Each of the (i) conversion of the interest rate on the Bonds from the Weekly Rate to Fixed Rate; (ii) establishment of serial and term bond maturities (with related amortization installments); (iii) establishment of revised redemption premiums and no-call periods; (iv) execution and delivery of the First Supplemental Indenture and (v) delivery of the Alternate Credit Facility, is authorized under and complies with the terms of the Indenture.

2. The exclusion of interest on the Bonds from federal income taxation under the Internal Revenue Code of 1986, as amended, will not be adversely affected by the (i) conversion of the interest rate on the Bonds from the Weekly Rate to a Fixed Rate; (ii) establishment of serial and term bond maturities (with related amortization installments); (iii) establishment of revised redemption premiums and no-call periods; (iv) execution and delivery of the First Supplemental Indenture or (v) delivery of the Alternate Credit Facility.

3. All conditions precedent to the execution and delivery the Supplemental Indenture have been complied with.

This letter is solely for your benefit and may not be relied on by any other person and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose.

Respectfully submitted,

APPENDIX E

Specimen Municipal Bond Insurance Policy

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Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

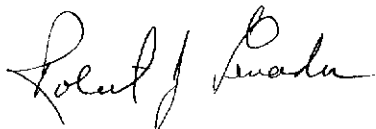
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

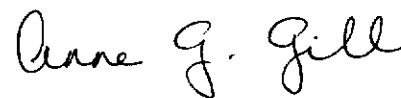
As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



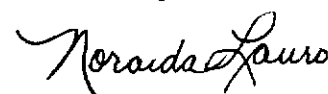
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee



Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

The insurance provided by this Policy is not covered by the Florida Insurance Guaranty Association.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

President



Secretary

Authorized Representative