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UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA

FINANCIAL STATEMENTS

June 30, 2005
with
INDEPENDENT AUDITORS' REPORT

CONTENTS

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Independent Auditors' Report

The Board of Directors
University Facilities, Inc.
Hammond, Louisiana

We have audited the accompanying statement of financial position of University Facilities, Inc. (the Organization) as of June 30, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 provides 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 University Facilities, Inc. as of June 30, 2005, 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.

Horton, Lee, Burnett, Peacock,
Cleveland & Grainger, P.C.

August 26, 2005

UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA

STATEMENT OF FINANCIAL POSITION
June 30, 2005

ASSETS

Current assets:		
Cash	$	461,809
Investment - bond reserves		2,735,325
Investment - capital reserves		17,824,280
Accounts receivable (net of allowance for doubtful accounts of $68,391)		409,151
Accounts receivable- other		298,006
Total current assets		21,728,571
Restricted for debt service:		
Investment - debt service reserves		5,305,331
Property and equipment, net		32,320,002
Other assets:		
Construction in progress		19,670,096
Debt issuance costs, net		3,310,872
Total other assets		22,980,968
	$	82,334,872

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and other accrued expenses	$	800,738
Construction cost payable		5,416,816
Unearned rental revenue		98,842
Note payable - Hibernia Bank		268,701
Interest payable		1,212,840
Total current liabilities		7,797,937
Long-term liabilities:		
Taxable bonds payable, net		924,204
Tax-exempt bonds payable		75,985,000
Bond premium, net		487,263
Total long-term liabilities		77,396,467
Net assets, unrestricted		(2,859,532)
	$	82,334,872

See accompanying notes.

UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Revenues		
Rental Income	$	5,191,880
Interest income		467,816
Other		390,859
Total revenues		6,050,555
Expenses		
Advertising and promotion		45,064
Amortization expense		23,974
Bad debt		140,993
Depreciation expense		1,195,420
Development and start up costs		294,794
Financing costs:		
Administrative costs		12,983
Bond auction fees		32,813
Letter of credit fees		32,797
Remarketing fees		1,942
Grounds/building maintenance		275,185
Insurance		62,428
Interest expense		865,972
Interior unit		1,372,583
Loss on early retirement of bonds		705,101
Management fees		220,000
Payroll expenses		714,387
Professional fees		41,829
Rental		102,789
Telephone		260,311
Travel		21,586
Utilities		1,203,736
Total expenses		7,626,687
Change in net assets		(1,576,132)
Net assets		
Beginning of the year		(1,283,400)
End of the year	$	(2,859,532)

See accompanying notes.

UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

Operating activities	
Change in net assets	$ (1,576,132)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	1,219,394
Loss on early retirement of bonds	705,101
Increase in accounts receivable	(336,467)
Increase in accounts receivable - other	(298,006)
Decrease in prepaid insurance	63,576
Increase in accounts payable and other accrued expenses	789,134
Increase in unearned rental revenue	98,842
Increase in accrued interest payable	1,099,979
Total adjustments	3,341,553
Net cash provided by (used in) operating activities	1,765,421
Investing activities	
Net purchases of short term investments	(25,755,059)
Payments for construction in progress	(34,237,475)
Net cash provided by (used in) investing activities	(59,992,534)
Financing activities	
Proceeds from bond issuance	74,566,448
Payments for defeasement of bonds	(455,000)
Payments for debt issuance costs	(462,286)
Repayment of note payable	(527,087)
Repayment of revenue bonds payable	(14,945,000)
Net cash provided by (used in) financing activities	58,177,075
Net increase (decrease) in cash and cash equivalents	(50,038)
Cash and cash equivalents	
Beginning of year	511,847
End of year	$ 461,809

See accompanying notes.

UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 – FORMATION, OWNERSHIP AND BUSINESS OF THE ORGANIZATION

The Organization

University Facilities, Inc. (the "Organization") is a private nonprofit organization and is formed to promote, assist, and benefit the mission of Southeastern Louisiana University through the acquisition, construction, development, management, leasing or otherwise assisting in the acquisition, construction, development, management, leasing of student housing or other facilities on the campus of Southeastern Louisiana University. The facilities of the Organization are operated under a Management Agreement between the Organization and Capstone On-Campus Management, LLC.

The Organization is a nonprofit organization as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from federal and state income taxes.

The Organization participated in bond issuance by borrowing money from The Louisiana Local Government Environmental Facilities and Community Development Authority (the "Issuer") who issued $76,910,000 in revenue bonds (Series 2004) which will be payable solely from the revenues of the Organization. The revenue bonds were issued pursuant to a Trust Indenture dated August 1, 2004, between the Issuer and the Bond Trustee. The proceeds of the primarily tax-exempt bonds were loaned to the Organization pursuant to a Loan Agreement dated as of August 1, 2004 between the Issuer and the Organization and were used to construct the facilities. To secure the Organization's obligations to repay the moneys loaned, the Organization executed a Mortgage, Assignment of Leases and Security Agreement. The Organization granted to the Trustee, first mortgage lien on its leasehold interest in the property, equipment, furnishings and other intangible property included in the facilities and first priority security interest in the leases and subleases affecting the facilities, including, without limitation, the facilities lease agreement and all revenue rentals, and other sums due or becoming due under the leases. The underlying property on which the housing project is located is leased to the Organization by a Ground and Building Lease Agreement. The facilities are leased to the Board of Supervisors for the University of Louisiana System (the "Board") under a facilities lease agreement. At such time as the financing for the Organization is paid in full, the obligation is cancelled and the interest in the facility and the underlying property is conveyed to the educational institution.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The accompanying financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned; expenses and costs are recognized when incurred.

Fair values of financial instruments

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash – The carrying amounts reported in the statement of financial position approximate fair value because of the short maturities of those instruments.

UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment securities

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Allowance for doubtful accounts

The Organization allows for estimated losses on accounts receivable based on prior year bad debt experience and a review of existing receivables. Bad debt recoveries are charged against the allowance account as realized. Based on these factors, there is an allowance for doubtful accounts of $68,391 for the year ended June 30, 2005.

Unrestricted net assets

None of the Organization's net assets are subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as unrestricted net assets in accordance with Statement of Financial Accounting Standards No. 117, *Financial Statements for Not-For-Profit Organizations*.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates; however, in the opinion of management such differences will not be material to the financial statements.

Advertising

Advertising costs are expensed as incurred. Advertising costs totaled $45,064 for the year ended June 30, 2005.

Revenue recognition

The Organization generally leases apartment units based on annual lease agreements. Tenants are billed on the first of the month for that month's portion of the lease and the Organization recognizes revenue at that time. It is not uncommon for tenants to pay rent in advance. These amounts are recorded as unearned rental revenue on the balance sheet.

Cash and cash equivalents

For the purposes of the Statement of Cash Flows, the Organization considers all unrestricted cash on hand and unrestricted temporary investments purchased with an initial maturity of three months or less, except for Treasury bills, commercial paper, and other short-term financial instruments included in the Organization's investment account which are primarily held for investment in long-term assets, to be cash and cash equivalents. The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of these financial instruments.

UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

The Organization capitalized all property and equipment acquisitions in excess of $5,000. Property and equipment are capitalized at cost and are being depreciated over the estimated useful life of the respective asset. Maintenance and repairs are charged to expense as incurred while additions and betterments are capitalized. Depreciation is computed using the straight-line method with estimated useful lives of forty years for buildings and seven years for furniture and equipment.

Property and equipment is comprised of the following at June 30, 2005:

	Cost	Accumulated Depreciation	Net Book Value
Capital assets			
Building and building improvements	$ 37,142,844	$ 4,826,574	$ 32,316,270
Furniture and equipment	58,637	58,637	-
Portable building	5,332	1,600	3,732
	$ 37,206,813	$ 4,886,811	$ 32,320,002

Depreciation expense was $1,195,420 for the year ended June 30, 2005.

Construction in progress

Construction in progress consists of development costs, direct and indirect construction costs and capitalized interest. The costs are accounted for as construction in progress until such time as the project is complete and the assets are placed into service. The assets are then classified as property and equipment and depreciated accordingly. Construction in progress amounted to $19,670,096 for the year ended June 30, 2005.

Capitalized interest is recorded based upon interest expense incurred on the Organization's borrowings, offset by the investment income earned on the related bond proceeds. The net amount of capitalized interest at June 30, 2005 was $1,516,118.

Cash paid for interest, for purposes of the statement of cash flows, is disclosed net of the amount capitalized for the year ended June 30, 2005.

Debt issuance costs

Costs incurred in connection with the issuance of the bonds are amortized using the straight-line method over the lives of the associated bonds. These costs are shown net of accumulated amortization of $104,354 at June 30, 2005. A portion of the amortization of these costs is reflected as part of the overall construction costs of the Organization, until the related assets are placed in service.

UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3 – CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances with creditworthy, high quality, financial institutions located in several states. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. Periodically, the Organization maintains deposits in excess of federally insured limits. At June 30, 2005, the Organization's uninsured demand and time deposit balances total $119,005. Management monitors the soundness of these financial institutions and feels the Organization's risk is not significant. The balances in investments – bond reserves are invested according to bond documents, which work to mitigate the credit risk of those investments.

NOTE 4 – INVESTMENTS-BOND RESERVES AND CAPITAL RESERVES

The funds held by the Bond Trustees consist of cash, money market investments, securities that are primarily issued by the U.S. Government and various other financial instruments. These short-term investments are primarily stated at cost, which approximates market.

Under the terms of the various Trust Indentures or similar documents, various funds such as Project, Capitalized Interest, Replacement, and Debt Service must be established and maintained for each of the projects. These or associated documents govern the types of investments and requirements for collateralization.

The bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum bond coverage's.

Investment income, to the extent it exceeds capitalized interest for the respective project, is reported as a change in net assets. Information necessary to report the proceeds of sales and purchases of investments for the statement of cash flows is not meaningful due to the nature of the investments and the large volume of transactions.

Investments-reserves consist of the following at June 30, 2005:

	Cost	Fair value
Investment - bond reserves		
U. S. Treasury Obligations	$ 10,561	$ 10,561
Money Market Funds	2,724,764	2,724,764
	$ 2,735,325	$ 2,735,325
Investment - capital reserves		
Hypo Real Estate Bank Int'l Fund 2.17%	$ 17,824,280	$ 17,824,280
Investment - debt service reserves		
XL Asset Funding Comp 4.5%	$ 5,305,331	$ 5,305,331

UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 5 - GROUND LEASE

Pursuant to a ground lease agreement between the Organization and the Board, the Organization (the Lessee) will lease the land on which the facilities is located from the Board of Supervisors of the University of Louisiana System (the Lessor), for the term beginning August 1, 2004 through August 1, 2044. The lease requires $1 annually in advance.

NOTE 6 – FACILITIES LEASE

Under a facilities lease agreement (the "Facilities Lease"), the Organization will lease the Facilities to the Board for a term of forty (40) years. The rental payment under the Facilities Lease will be in the form of a guarantee by the Board and will be equal to any "shortfall" in the payment of the principal and interest on the Series 2004 Bonds, the amounts required to be deposited in the various funds or accounts established under the Trust Indenture, and all other expenses arising out of or relating to the ownership or operation of the Facilities or the issuance of the Series 2004 Bonds. The Organization's rights under the Facilities Lease will be assigned to the Trustee as security for the payment of the Series 2004 Bonds.

NOTE 7 – LONG-TERM DEBT

Bonds payable

On August 13, 2004, the Louisiana Local Government Environmental Facilities and Community Development Authority (the Issuer) issued $76,910,000 of taxable and non-taxable Series 2004 Bonds pursuant to an Indenture of Trust between the Issuer and The Bank of New York Trust Company, N.A. (the Trustee). The issuance of both tax-exempt and taxable bonds was due to the percentage limitation on the amount of tax-exempt bond proceeds that can be used to pay transaction expenses and still maintain a tax-exempt status.

Pursuant to loan agreements between the Issuer and the Organization, the Issuer has loaned the proceeds of the Bonds to the Organization. The proceeds were used to finance the construction of a new residential facility and renovate an existing student housing facility owned by the Organization, provide working capital for marketing and operation the new and renovated facilities, fund interest on the bonds during the construction and renovation period, fund a Debt Service Reserve Fund, and pay the cost of issuing the bonds.

Pursuant to security agreements, leasehold deeds to secure debt, assignment of contract documents and assignment of rents between the Organization and the Trustees, the Organization grants to the Trustee first lien security title in the leasehold estates created by the ground leases and a security interest in the revenues and accounts generated by the operations of the Organization. The Organization also assigned to the Trustee its rights under various agreements and contracts. Pursuant to the Indenture, the Issuer assigned all of their interest in the loan agreements to the Trustee to secure the Bonds.

In addition to financing the construction of the new and renovating facilities, proceeds of the bonds in the amount of $14,945,000 were used to retire existing outstanding bonds and the related debt.

UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Long-term debt consists of the following at June 30, 2005:

$60,985,000 tax-exempt term bonds payable dated August 1, 2004; due at various intervals through August 1, 2031; payable in semi-annual installments of interest and annual installments of principal; average coupon rate of 4.8098%; secured by leasehold deed and assignment of rents.	$	60,985,000
$15,000,000 tax-exempt term bonds payable dated August 1, 2004; due at various intervals through August 1, 2034; payable in semi-annual installments of interest and annual installments of principal; average coupon rate of 4.0000%; secured by leasehold deed and assignment of rents.		15,000,000
	$	75,985,000
$925,000 taxable term bonds payable dated August 1, 2004; due at various intervals through August 1, 2007; payable in semi-annual installments of interest and annual installments of principal; average coupon rate of 3.4118%; secured by leasehold deed and assignment of rents.	$	925,000
Less unamortized discount on taxable bonds payable		(796)
	$	924,204

Net unamortized discount

The net bond discount recognized upon the issuance of the bonds is being amortized over the life of the bonds using the effective interest method.

Notes payable consist of the following at June 30, 2005:

$2,300,000 line of credit with Hibernia National Bank with interest at 1.55% over London Inter-Bank offered rate, due in 7 consecutive annual principal and interest payments of $417,991 each, beginning November 20, 2000, with the final payment due November 20, 2007. Secured by a security interest in all the intangible rights of Aramark Educational Services, Inc. and University Facilities, Inc. in a leasehold deed and assignment of rents.	$	268,701

UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Maturities of long-term debt at June 30, 2005 are as follows:

	Tax-exempt bonds payable	Taxable bonds payable	Note payable
Year ending June 30			
2006	$ -	$ -	$ 268,701
2007	-	225,000	-
2008	180,000	700,000	-
2009	1,015,000	-	-
2010	1,170,000	-	-
2011 and thereafter	73,620,000	-	-
	$ 75,985,000	$ 925,000	$ 268,701

NOTE 8 – BOND PREMIUM PAYABLE

The bond premium received upon the issuance of the bonds is being amortized over the life of the bonds using the effective interest method. Annual amortization will be charged against "Interest Expense". The bond premium is shown net of accumulated amortization of $27,114.

NOTE 9 – PROJECT MANAGEMENT

Capstone On-Campus Management, LLC will conduct the management and daily operations of the Organization's residential facilities under a Management Agreement dated July 1, 2004. The management of the Organization's residential facilities includes collection of rents, payment of indebtedness and expenses, repairs, maintenance, accounting and reporting services. All employees necessary or appropriate to manage the Organization's residential facilities will be under the control and supervision of Capstone On-Campus Management, LLC.

The compensation agreement for management services is a fee of $220,000 annually for the initial five-year term of the agreement. The compensation agreement shall be reviewed and modified in the event of any extension beyond five years. Management fees for the year ended June 30, 2005 was $220,000, all of which was paid to the property manager during the year ended June 30, 2005.

UNIVERSITY FACILITIES, INC.
HAMMOND, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying amounts of the Foundation's financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities.

The fair value of the bonds, that have a fixed rate, is estimated using market prices of comparable bonds. The aggregate carrying amount and fair value of all bonds payable were $76,910,000 and $80,025,980 as of June 30, 2005, respectively.

NOTE 11 – NONRECURRING ITEM

On September 16, 2004, a portion of the proceeds of the new bond issue was used to retire all of the Series 2000 outstanding bonds. The redemption of the Series 2000 bonds resulted in expensing the unamortized costs of issuance of $250,101 and a $455,000 termination fee of the derivative transaction. These costs are reflected in the financial statements as a loss on early retirement of bonds in the amount of $705,101.

NOTE 12 – CASH FLOW INFORMATION

The following are supplemental disclosures of cash flow information:

Cash paid for:		
Interest from operating activities	$	159,531
Interest from bond proceeds	$	238,915
Non cash transactions:		
Bond issue costs		
Bond insurance premium	$	2,282,000
Underwriters discount		670,940
	$	2,952,940
Bond original issue discount	$	964