

**UCF FINANCE CORPORATION
(A COMPONENT UNIT OF THE UNIVERSITY
OF CENTRAL FLORIDA)**

**FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

UCF FINANCE CORPORATION
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JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
UCF Finance Corporation
Orlando, Florida

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the UCF Finance Corporation (the "Corporation"), a direct support organization and component unit of the University of Central Florida, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of June 30, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2022 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, flowing style.

Crowe LLP

Tampa, Florida
November 30, 2022

UCF FINANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021
(CONTINUED)

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the UCF Finance Corporation (the Corporation) for the fiscal years ended June 30, 2022, and 2021, and should be read in conjunction with the financial statements and notes thereto. The MD&A, financial statements, and notes thereto, are the responsibility of management. The MD&A contains financial activity of the Corporation for the fiscal years ended June 30, 2022, 2021, and 2020.

The Corporation is presented as a blended component unit of the University of Central Florida (the University) and was certified as a direct support organization in July 2007. The Corporation was formerly known as the UCF Health Facilities Corporation. The purpose of the Corporation is to assist in financing the construction of facilities located on the Health Sciences Campus at Lake Nona and other projects on behalf of the University. Facilities constructed through the Corporation are owned and operated by the University.

The Corporation assisted in financing the construction of the Burnett Biomedical Sciences building and the College of Medicine's Medical Education Building during 2007. The Burnett facility, which houses ongoing research in the biomedical field, including three Biosafety Level 3 laboratories, and a major transgenic animal facility was completed and began operations in May of 2009. The College of Medicine facility, which is home to the students accepted into the medical school, opened its doors to students in August 2009. Each of these facilities are establishing vigorous biomedical research programs. Collaborations with these research institutions and other major Central Florida hospitals will facilitate the translation of laboratory findings into new cures for patients in Florida and beyond.

The University downtown campus education facility (UCF Downtown) construction project was approved by the Florida Board of Governors in 2016, and design and build teams were selected during that summer. The Corporation issued a Note during 2018 to assist with the financing of the UCF Downtown facility. UCF Downtown is a fifteen-acre campus located in Orlando's Creative Village and is made up of several buildings. The new shared campus incorporates innovative technology to create a 21st-century learning environment. The campus' proximity to Orlando's Central Business District places students within walking distance of job and internship opportunities and makes it easy for faculty to invite guest speakers to campus or collaborate with professionals in their field of study. The Downtown campus opened in August 2019. This transformational project, which kick-started Orlando's \$1 billion public-private Creative Village, will increase access for students, provide pathways into high-demand career fields, foster collaboration with our neighbors in meaningful ways and improve countless lives through the power of education. As discussed further in Note (4) Long-term obligations, the Downtown Note was paid off during fiscal year 2022.

Pursuant to GASB Statement No. 35, the Corporation's basic financial statements include: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

THE STATEMENT OF NET POSITION

The statement of net position reflects the assets, deferred outflows of resources, and liabilities of the Corporation, and presents the net position of the Corporation at a specified time. Assets, plus deferred outflows of resources, less liabilities equals net position, which is one indicator of the Corporation's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the Corporation's financial condition. Restricted net position consists of assets that have constraints placed upon their use either by external donors or creditors or through laws, regulations or constraints imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets. Unrestricted net position consists of net assets that do not meet the definition of either restricted or net investment in capital assets. The Corporation's assets and deferred outflow of

UCF FINANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021
(CONTINUED)

resources exceeded liabilities creating a positive net position of \$0.1 million at June 30, 2022, primarily due to the receipt of sufficient pledge revenues from the UCF Foundation sufficient to pay off the outstanding balance on the Downtown construction note.

The following summarizes the Corporation's total net position for fiscal years ended June 30:

Condensed Statements of Net Position
(For the Fiscal Years at June 30)

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Assets			
Current Assets	\$ 3,394,134	\$ 3,430,383	\$ 3,331,017
Noncurrent Assets	<u>40,171,657</u>	<u>42,444,567</u>	<u>44,466,741</u>
Total Assets	<u>43,565,791</u>	<u>45,874,950</u>	<u>47,797,758</u>
 Deferred Outflows	 <u>10,213,367</u>	 <u>10,894,257</u>	 <u>11,575,149</u>
 Liabilities			
Current Liabilities	3,385,964	3,363,118	3,355,503
Noncurrent Liabilities	<u>50,247,000</u>	<u>54,589,194</u>	<u>59,726,399</u>
Total Liabilities	<u>53,632,964</u>	<u>57,952,312</u>	<u>63,081,902</u>
 Net position			
Restricted	2,758,170	2,681,265	2,594,311
Unrestricted	<u>(2,611,976)</u>	<u>(3,864,370)</u>	<u>(6,303,306)</u>
Total Net position	<u>\$ 146,194</u>	<u>\$ (1,183,105)</u>	<u>\$ (3,708,995)</u>

The Corporation's assets totaled \$43.6 million at June 30, 2022. This balance reflects a \$2.3 million or 5.0 percent decrease from the prior fiscal year primarily due to a decrease in the funds due from the University.

Deferred outflows totaled \$10.2 million at June 30, 2022. This balance represents the deferred loss on refunding associated with the termination of the Corporation's SWAP liability on September 20, 2017, with the debt refinancing (as further described in Note 4). This balance reflects a \$0.7 million decrease, or 6.3 percent decrease from the prior fiscal year due to amortization of the deferred loss which is recorded as a component of the Corporation's interest expense.

The Corporation's liabilities totaled \$53.6 million at June 30, 2022. This balance reflects a \$4.3 million, or 7.5 percent decrease from the prior fiscal year primarily due to \$1.6 million in payments on the construction note and \$2.7 million in payments on the Burnett term loan.

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statement of revenues, expenses and changes in net position presents the Corporation's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. GASB Statement No. 35 categorizes revenues and expenses as either operating or 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 majority of the Corporation's revenues and expenses are nonoperating revenues and expenses as defined by GASB.

On September 20, 2017, the Corporation amended and restated its operating agreement with the University concurrent with the issuance of the Series 2017 \$63.4 million refinancing term loan (the Series 2017 debt issue). In accordance with this agreement the University remits basic rent payments to the Corporation. Basic rent is defined as being equal to principal, interest, and other expenses incurred by the Corporation throughout the year. The Corporation records these payments as distributions from the University of Central Florida and classifies them as nonoperating revenues.

The following summarizes the Corporation's changes in net position for the fiscal years ended June 30:

Condensed Statements of Revenues, Expenses and Changes in Net Position (For the Fiscal Years Ended June 30)

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues	\$ -	\$ -	\$ -
Operating expenses	19,259	12,914	12,914
Operating loss	<u>(19,259)</u>	<u>(12,914)</u>	<u>(12,914)</u>
Net nonoperating revenues (expenses)	<u>1,348,558</u>	<u>2,538,804</u>	<u>2,538,804</u>
Change in net position	1,329,299	2,525,890	2,525,890
Net position, beginning of year	(1,183,105)	(3,708,995)	(3,708,995)
Net position, end of year	<u>\$ 146,194</u>	<u>\$ (1,183,105)</u>	<u>\$ (1,183,105)</u>

The Corporation's operating expenses totaled \$19 thousand at June 30, 2022. This balance reflects a \$6 thousand increase from the prior fiscal year primarily due to an increase in banking and other professional fees.

Net nonoperating revenues totaled \$1.3 million at June 30, 2022. This balance reflects a \$1.2 million decrease from net nonoperating expenses in the prior fiscal year due to a decrease of transfers from UCF Foundation. Sufficient pledges were transferred during fiscal year 2022 from the UCF Foundation to pay off the outstanding balance on the construction note. The line of credit with the bank was subsequently closed and no further draws are anticipated.

UCF FINANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021
(CONTINUED)

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the Corporation's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the Corporation's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the Corporation. Cash flows from capital and related financing activities include changes associated with long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments and income earned on those investments.

The following summarizes cash flows for the fiscal years ended June 30:

Condensed Statements of Cash Flows
(For the Fiscal Years Ended June 30)

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Cash flows provided by (used in)			
Operating activities	\$ (19,259)	\$ (12,914)	\$ (21,642)
Net Noncapital and related financing activities	(35,325)	(9,303)	(75,080)
Investing activities	<u>88,335</u>	<u>53,786</u>	<u>133,600</u>
Net increase (decrease) in cash	33,751	31,569	36,878
Cash and cash equivalents			
Beginning of year	<u>3,360,383</u>	<u>3,328,814</u>	<u>3,291,936</u>
End of year	<u><u>\$ 3,394,134</u></u>	<u><u>\$ 3,360,383</u></u>	<u><u>\$ 3,328,814</u></u>

Cash flows used in operating activities totaled \$19 thousand at June 30, 2022. This balance reflects a \$6 thousand increase from the prior year, primarily due to increases in professional and banking fees.

Cash flows used by noncapital and related financing activities totaled \$35 thousand at June 30, 2022. This balance reflects a \$26 thousand increase from the prior year. This increase was primarily a result of an increase in net transfers to the University.

Cash flows used by investing activities totaled \$88 thousand at June 30, 2022. This balance reflects a \$35 thousand increase from the prior year, due to an increase in dividend and realized gains from investing activities allocated from the university for funds held on behalf of the corporation.

UCF FINANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021
(CONTINUED)

DEBT ADMINISTRATION

The Corporation had \$53 million in loans payable as of June 30, 2022. This represents a decrease of \$4.3 million, or 7.5 percent, from the prior fiscal year. Additional information about the Corporation's long-term debt is presented in Note 4 of the financial statements.

The following table summarizes the Corporation's long-term debt balances for the fiscal years ended June 30:

Long-Term Debt
(For the Fiscal Years Ended June 30)

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Loans Payable	\$ 52,997,000	\$ 55,681,000	\$ 58,302,000
Notes Payable	-	1,592,194	4,045,399
Total	<u><u>\$ 52,997,000</u></u>	<u><u>\$ 57,273,194</u></u>	<u><u>\$ 62,347,399</u></u>

ECONOMIC OUTLOOK

The Corporation has added great value to the University's mission and its specific vision to construct a state-of-the-art facility for biomedical research. In September 2017, the Corporation refunded its Series 2007 debt issuance, terminating the outstanding SWAP liability, and reducing the Corporation's annual debt service requirement. The Corporation continues to support the University by providing a construction note to secure the commitments for the University's Downtown construction project which is funded by pledges received by the UCF Foundation. During fiscal year 2022, sufficient pledge revenues were received from the UCF Foundation to pay off the outstanding downtown construction note. In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The Corporation's fiscal 2023 operations and financial results are not expected to be materially affected.

REQUEST FOR INFORMATION

These financial statements are designed to provide detailed information on the Corporation's operations to the Corporation's Board, management, investors, creditors, and all others with an interest in the Corporation's financial affairs and to demonstrate the Corporation's accountability for the assets it controls and funds it receives and expends. Questions concerning any of the information provided in this report or any requests for additional financial information should be addressed to Assistant Vice President for DSO Accounting and Financial Reporting, University of Central Florida, 12424 Research Parkway, Suite 300, Orlando, FL 32826-3249.

UCF FINANCE CORPORATION
STATEMENTS OF NET POSITION
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Current assets		
Restricted cash and cash equivalents	\$ 3,394,134	\$ 3,360,383
Due from UCF Foundation	-	70,000
Total current assets	<u>3,394,134</u>	<u>3,430,383</u>
Noncurrent assets		
Due from the University of Central Florida	40,171,657	42,444,567
Total Assets	<u>43,565,791</u>	<u>45,874,950</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>		
Deferred loss on refunding of debt	10,213,367	10,894,257
	<u>10,213,367</u>	<u>10,894,257</u>
<u>LIABILITIES</u>		
Current liabilities		
Current portion of long-term debt	2,750,000	2,684,000
Interest payable	635,964	679,118
Total current liabilities	<u>3,385,964</u>	<u>3,363,118</u>
Noncurrent liabilities		
Long-term debt, less current portion	50,247,000	54,589,194
Total Liabilities	<u>53,632,964</u>	<u>57,952,312</u>
<u>NET POSITION</u>		
Restricted for debt service	2,758,170	2,681,265
Unrestricted	(2,611,976)	(3,864,370)
Total Net Position	<u>\$ 146,194</u>	<u>\$ (1,183,105)</u>

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

UCF FINANCE CORPORATION
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Operating revenues	\$ -	\$ -
Operating expenses		
Professional services	19,259	12,914
Operating loss	<u>(19,259)</u>	<u>(12,914)</u>
Nonoperating revenues (expenses)		
Investment income	88,335	53,786
Interest expense	(1,947,556)	(2,018,287)
Distributions from the University of Central Florida	1,887,017	1,982,303
Distributions to the University of Central Florida	(29,238)	-
Distributions from the UCF Foundation	1,350,000	2,521,002
Net nonoperating revenues (expenses)	<u>1,348,558</u>	<u>2,538,804</u>
Change in net position	<u>1,329,299</u>	<u>2,525,890</u>
Net position, beginning of year	<u>(1,183,105)</u>	<u>(3,708,995)</u>
Net position, end of year	<u>\$ 146,194</u>	<u>\$ (1,183,105)</u>

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

UCF FINANCE CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Payments to suppliers and others	\$ (19,259)	\$ (12,914)
Cash flows from (to) noncapital and related financing activities		
Payments on long-term debt	(4,276,194)	(5,074,205)
Interest paid	(1,309,820)	(1,392,780)
Distributions from the University of Central Florida	4,159,927	4,004,477
Distributions to the University of Central Florida	(29,238)	-
Distributions from the UCF Foundation	1,420,000	2,453,205
Net cash provided by (used in) noncapital and related financing activities	<u>(35,325)</u>	<u>(9,303)</u>
Cash flows from investing activities		
Investment income received	88,335	53,786
Net increase (decrease) in cash and cash equivalents	<u>33,751</u>	<u>31,569</u>
Cash and cash equivalents, beginning of year	3,360,383	3,328,814
Cash and cash equivalents, end of year	<u><u>\$ 3,394,134</u></u>	<u><u>\$ 3,360,383</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating loss	\$ (19,259)	\$ (12,914)
Adjustments to reconcile operating loss to net cash used in operating activities	-	-
Net cash used in operating activities	<u><u>\$ (19,259)</u></u>	<u><u>\$ (12,914)</u></u>

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

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

(1) Summary of Significant Accounting Policies:

The following is a summary of the significant accounting policies and practices of the UCF Finance Corporation (the Corporation), which affect significant elements of the accompanying financial statements:

(a) **Reporting entity**—The Corporation is a not-for-profit entity incorporated on February 1, 2007. The Corporation was created by the University of Central Florida (the University), as a direct support organization of the University whose purpose is to assist in financing the construction of facilities located on the Health Sciences campus at Lake Nona for and on behalf of the University. As a direct support organization and component unit of the University, the Corporation operates for the service and convenience of the University. The Corporation is also presented as a blended component unit of the University on the University's financial statements.

(b) **Financial statement presentation**—The Corporation's financial statements are presented in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*, as amended, which requires the Corporation to present:

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

(c) **Basis of accounting**—Basis of accounting refers to when revenues, expenses, and related assets, deferred outflows of resources, 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 Corporation's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The Corporation follows GASB standards of accounting and financial reporting.

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. The statement of revenues, expenses and changes in net position is presented in a format which distinguishes operating revenues and expenses from nonoperating items. Operating revenues normally, but not always, result from exchange transactions defined as revenues received in exchange for a good or service. Nonoperating revenues are defined as revenues normally, but not always, resulting from nonexchange transactions, defined as value received with no good or service exchanged.

The Corporation is not providing any goods or services in exchange for revenues, resulting in all revenues being classified as nonoperating on the statement of revenues, expenses and changes in net position. The statement of cash flows is presented using the direct method in compliance with GASB standards of accounting and financial reporting.

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

(d) **Cash and cash equivalents**—Amounts reported as cash and cash equivalents consist of cash on hand, cash held by a trust institution and invested in money market funds, and investments with original maturities of three months or less. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

(e) **Due From the University of Central Florida**—The Due from the University of Central Florida represents the amount that will be received to fund the outstanding principal and interest on debt incurred for the construction of the Burnett Biomedical Sciences Building over the life of the loan. As shown in the table below, this balance also includes a historical funding deficit and is offset by restricted cash, excluding any pledges held for the repayment of the downtown construction note, and the unamortized deferred loss on refunding of debt. The resulting balance of \$40,171,657 and \$42,444,567 for fiscal year 2022 and 2021, respectively, includes funds held by the University on behalf of the Corporation totaling \$2,137,115 and \$2,286,913 for fiscal year 2022 and 2021, respectively.

	2022	2021
Outstanding Principal - Burnett building loan	\$ 52,997,000	\$ 55,681,000
Interest payable - Burnett building loan	635,964	668,171
Historical funding deficit	141,599	141,599
Less:		
Restricted cash, excluding pledges held for downtown construction note	(3,389,539)	(3,151,946)
Unamortized deferred loss on refunding of debt	(10,213,367)	(10,894,257)
Due from University of Central Florida	<u>\$ 40,171,657</u>	<u>\$ 42,444,567</u>

(f) **Revenue Recognition**—Revenues are generated from basic rent distributions from the University in accordance with the operating agreement between the Corporation and the University. Basic rent is defined as being equal to principal, interest, and other expenses incurred by the Corporation. Other nonoperating revenues include distributions of pledges secured by the UCF Foundation for the construction of a new UCF Downtown campus and investment income.

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

(h) **Deferred outflows of resources**—The unrestricted net position previously included the effect of recognizing a deferred outflow of resources for the change in the fair value on the interest rate swap agreement from year to year. Gains and losses realized upon settlement of these agreements were deferred until the underlying hedged instrument were settled. In fiscal year 2018, the interest rate swap was terminated as a result of the Corporation's debt refinancing resulting in a deferred loss on refunding. The deferred loss on refunding will be amortized as a component of interest expense over the life of the remaining debt.

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

(i) **Net position**—The Corporation’s net position is classified as follows:

- Restricted net position – This represents the Corporation’s resources that have constraints placed upon their use either by external donors or creditors or through laws, regulations or constraints imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets.
- Unrestricted net position – This represents Corporation resources which do not meet the definition of “restricted” or “net investment in capital assets.”

There was no net investment in capital assets at June 30, 2022 and 2021. When both restricted and unrestricted net positions are available for use, it is the Corporation’s policy to use restricted resources first, then unrestricted resources as they are needed.

(j) **Income taxes**—The Corporation 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.

When required, the Corporation files income tax returns in the U.S. federal jurisdiction and in the state of Florida. The Corporation’s income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

The Corporation has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with accounting principles generally accepted in the United States of America for accounting for uncertainty in income taxes, and determined that there are no uncertain tax positions that would have a material impact on the financial statements of the Corporation.

(k) **Use of 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 along with disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) **Cash and Cash Equivalents:**

The Corporation’s restricted cash shown on the statement of net position represents cash held by the Corporation's trustee in the Corporation’s name. These funds consist of funds held for debt service payments and letter of credit annual commitment fees. For the years ended June 30, 2022 and 2021, \$3,394,134 and \$3,360,383, respectively, were invested in a government money market fund through a national bank in accordance with the University’s investment policy for managing credit risks, which the Corporation follows.

The Corporation has cash invested by the University of \$2,137,115 and \$2,286,913 on June 30, 2022, and 2021, respectively. The amounts are included in Due From the University of Central Florida on the accompanying statement of net position. Investment income shown on the statement of revenues, expenses and changes in net position includes interest earned on the cash held by a trust institution, as well as realized gains/losses allocated from the University on funds held and invested on behalf of the Corporation. Section 1011.42(5), *Florida Statutes*, authorizes universities and their component units to invest funds with the State Treasury and State Board of

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

(2) Cash and Cash Equivalents: (Continued)

Administration, and requires that these entities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities and their component units are subject to the requirements of Chapter 218, Part IV, *Florida Statutes*. The University's Board of Trustees has adopted a written investment policy establishing investment parameters within applicable Florida Statutes and the University investment manual. Pursuant to Section 218.415(16), *Florida Statutes*, the Corporation is authorized to invest in the Florida PRIME investment pool administered by the State Board of Administration (SBA); interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, *Florida Statutes*; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the University's Board of Trustees as authorized by law. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Pursuant to Section 218.415(16), *Florida Statutes*, the Corporation's investments in securities must provide sufficient liquidity to pay obligations as they come due.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Money market funds are uninsured and collateralized by securities held by the institution, not in the Corporation's name. The University's investment policy limits fixed income exposure to investment grade assets and provides credit quality guidelines applicable to the investment objective. The University's investment policy and manual provides information on asset classes, target allocations, and ranges of acceptable investment categories.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. In order to manage the custodial credit risk, the University's investment policy specifies certain requirements to pre-qualify financial institutions and brokers or dealers. The Corporation's investments are held by a third-party custodian, not in the name of the Corporation.

(3) Concentrations of Credit Risk:

The Corporation has no policy requiring collateral or other security to support receivables from related parties. Related party receivables consist of amounts due from the University and the UCF Foundation and are reflected in the accompanying statements of net position.

(4) Long-term Obligations:

The Corporation issued a Series 2007 Capital Improvement Revenue Bonds with an aggregate principal amount of \$60,000,000, to assist in financing the University's construction of the Burnett Biomedical Sciences Building. The bonds were set to mature on July 1, 2037 and were secured by the University's indirect cost revenues received by the University from Federal, State, and private grants and further secured by an irrevocable direct pay letter of credit issued by Fifth Third Bank of Central Florida. In accordance with the letter of credit, the Corporation was required to pay the bank an annual commitment fee.

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

(4) Long-term Obligations: (Continued)

In September 2017, the Corporation issued a \$63,359,000 Refinancing Term Loan, Series 2017 to a bank. The loan will mature on July 1, 2037 and bear interest at a fixed rate of 2.4 percent per annum with a 15-year interest Put option. The loan is secured by the University's indirect cost revenues received by the University from Federal, State, and private grants.

Proceeds of \$63,359,000 from the Term loan, plus an additional \$918,460 contributed from the Corporation were used to purchase \$50,627,660 in U.S. Treasury State and Local Government Securities, to pay \$13,447,600 to terminate the Series 2007 bond SWAP liability and to fund \$202,200 of cost of issuance expenses. The U.S. Treasury State and Local Government Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2007 bonds, which defeased the bonds. The trust extinguished the defeased bonds on October 20, 2017. As a result of the refinancing, the Finance Corporation reduced its debt service requirement by \$5,804,859 over the next 20 years and obtained an economic gain of \$4,315,688.

On March 8, 2018, the Finance Corporation entered into a note with a bank for up to \$20,000,000 to secure construction commitments for a new University Downtown campus education facility. The note is secured by an assignment of philanthropic pledges received by the UCF Foundation and the outstanding balance on the note cannot exceed the total pledges receivable. The balance of the note was \$0 and \$1,592,194 as of June 30, 2022, and 2021 respectively. As of June 30, 2022, the Downtown note was paid off ahead of the final maturity date of March 8, 2023. The note is not subject to any acceleration clauses.

The line of credit with the bank was closed effective January 26, 2022. Excess pledges received by the UCF Foundation are transferred to the university directly. The note bears a variable rate of interest equal to a per annum rate of 81% multiplied by the sum of the LIBOR plus 0.50% and is subject to adjustment to reflect changes in the LIBOR Rate. The payoff rate on November 15, 2021, was 0.47%.

The following is a schedule of future principal and interest payments as of June 30, 2022:

Fiscal Year Ending June 30,	Loans Payable Principal	Interest	Net Cash Flows
2023	\$ 2,750,000	\$ 1,238,928	\$ 3,988,928
2024	2,816,000	1,172,136	3,988,136
2025	2,885,000	1,103,724	3,988,724
2026	2,955,000	1,033,644	3,988,644
2027	3,027,000	961,860	3,988,860
2028-2032	16,274,000	3,670,008	19,944,008
2033-2037	18,349,000	1,594,980	19,943,980
2038	3,941,000	47,292	3,988,292
Totals	<u>\$ 52,997,000</u>	<u>\$ 10,822,572</u>	<u>\$ 63,819,572</u>

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

(4) **Long-term Obligations:** (Continued)

Changes in long-term debt for the year ended June 30, 2022, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Direct Borrowings:</u>					
Loans payable	\$ 55,681,000	-	\$ (2,684,000)	\$ 52,997,000	\$2,750,000
UCF Downtown construction note	1,592,194	-	(1,592,194)	-	-
Total Direct Borrowings	<u>\$ 57,273,194</u>	<u>-</u>	<u>\$ (4,276,194)</u>	<u>\$ 52,997,000</u>	<u>\$2,750,000</u>

Changes in long-term debt for the year ended June 30, 2021, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<u>Direct Borrowings:</u>					
Loans payable	\$ 58,302,000	-	\$ (2,621,000)	\$55,681,000	\$2,684,000
UCF Downtown construction note	4,045,399	-	(2,453,205)	1,592,194	-
Total Direct Borrowings	<u>\$ 62,347,399</u>	<u>\$ -</u>	<u>\$ (5,074,205)</u>	<u>\$ 57,273,194</u>	<u>\$ 2,684,000</u>

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

(5) Operating Agreement:

In September 2017, the Corporation entered into an amended and restated operating agreement with the University in which the University makes basic rent payments to the Corporation equal to principal, interest, and associated expenses incurred by the Corporation for the financing of facilities constructed on the Health Sciences Campus located at Lake Nona. Total payments received from the University under this agreement were \$1,887,017 and \$1,982,303 for the years ended June 30, 2022 and 2021, respectively, and are reflected as distributions from the University of Central Florida in the accompanying statement of revenues, expenses and changes in net position.

The UCF Finance Corporation is presented as a blended component unit of the University's financial statements and in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 87 section 88 Leases - when the lessee or lessor is included as a blended component unit of the primary government, the reporting requirements of this Statement do not apply.

(6) Related Party Transactions:

The University distributed funds to the Corporation in accordance with the operating agreement as discussed in Note 5. Distributions from the University were \$1,887,017 and \$1,982,303 for the years ended June 30, 2022 and 2021, respectively. Distributions to the University were \$29,238 and \$0 for fiscal years ended June 30, 2022 and 2021 respectively and represented funds held by the university on behalf of the corporation to fund future interest payments previously remitted from the UCF Foundation from pledges used to secure the note.

During 2017, the Corporation entered into an agreement with the UCF Foundation for the use of donor pledges to secure a note for the construction of a new UCF Downtown campus. The pledges will be distributed from the UCF Foundation to the Corporation to reimburse the Corporation for construction distributions to the University. During fiscal year 2022 pledge distributions from the UCF Foundation totaling \$1,350,000 was transferred to the corporation and was used to repay principal and interest on the construction note. The note is paid off and all future collections are being remitted to the University directly. During fiscal year 2021 pledge distributions from the UCF Foundation totaling \$2,521,002 was transferred to the corporation and was used to repay principal and interest on the construction note.

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

Board of Directors
UCF Finance Corporation
Orlando, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the UCF Finance Corporation (the "Corporation"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated November 30, 2022

Report on Internal Control Over Financial Reporting

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

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

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

(Continued)

Report on Compliance and Other Matters

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

Purpose of this Report

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



Crowe LLP

Tampa, Florida
November 30, 2022

**INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH
SECTION 218.415, FLORIDA STATUTES**

Board of Directors
UCF Finance Corporation
Orlando, Florida

We have examined the UCF Finance Corporation's (the "Corporation") compliance with Section 218.415, *Florida Statutes*, concerning the investment of public funds during the year ended June 30, 2022. Management of the Corporation is responsible for the Corporation's compliance with the specified requirements. Our responsibility is to express an opinion on the Corporation's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Corporation complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Corporation complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Our examination does not provide a legal determination on the Corporation's compliance with specified requirements.

In our opinion, the Corporation complied, in all material respects, with the requirements contained in Section 218.415, *Florida Statutes*, during the year ended June 30, 2022.

The purpose of this report is solely to comply with Chapter 10.550, Rules of the Florida Auditor General. Accordingly, this report is not suitable for any other purpose.



Crowe LLP

Tampa, Florida
November 30, 2022