

UNIVERSITY OF CENTRAL FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2011



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Members of the Board of Trustees and President who served during the 2010-11 fiscal year are listed below:

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Matthew McCann from 5-09-11 (3)
Harris Rosen
John Sprouls from 4-13-11
Daniel Webster to 12-31-10 (4)

Dr. John C. Hitt, President

Notes: (1) There was no chair or vice chair from
June 23, 2011, through June 30, 2011.
(2) Faculty Senate chair.
(3) Student body president.
(4) Position remained vacant from
January 1, 2011, through June 22, 2011.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Jeffrey M. Brizendine, CPA, and the audit was supervised by Brenda C. Racis, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**UNIVERSITY OF CENTRAL FLORIDA
TABLE OF CONTENTS**

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	11
Statement of Revenues, Expenses, and Changes in Net Assets.....	13
Statement of Cash Flows.....	14
Notes to Financial Statements	16
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Other Postemployment Benefits Plan.....	40
Notes to Required Supplementary Information.....	41
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	
Internal Control Over Financial Reporting.....	42
Compliance and Other Matters	43

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the University's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

Audit Objectives and Scope

Our audit objectives were to determine whether the University of Central Florida and its officers with administrative and stewardship responsibilities for University operations had:

- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2011. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the University are included in our report No. 2012-104.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent University records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.



DAVID W. MARTIN, 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 Central 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, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the blended and aggregate discretely presented component units, as described in note 1 to the financial statements. The financial statements for the blended component unit represent 5.1 percent of the total assets, and 23.3 percent of the total liabilities, reported for the University of Central Florida. The financial statements of the aggregate discretely presented components represent 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, insofar as it relates to the amounts included for the blended and aggregate discretely presented component units, is based on 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 Central Florida and of its aggregate discretely presented component units as of June 30, 2011, and the respective changes in financial position and cash flows 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 a report on our consideration of the University of Central Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required 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.

Respectfully submitted,



David W. Martin, CPA
February 13, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2011, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report includes three basic 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, and notes thereto, encompass the University and its component units. These component units include:

- Blended Component Unit
 - The UCF Finance Corporation
- Discretely Presented Component Units
 - The University of Central Florida Foundation, Inc.
 - The University of Central Florida Research Foundation, Inc.
 - The UCF Athletics Association, Inc.
 - The UCF Convocation Corporation
 - The Golden Knights Corporation

Information regarding the discretely presented component units, including summaries of their separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the discretely presented component units. MD&A information for the discretely presented component units is included in their separately issued audit reports.

FINANCIAL HIGHLIGHTS

The University's assets totaled \$1.4 billion at June 30, 2011. This balance reflects a \$54.6 million, or 4.1 percent increase from June 30, 2010, primarily due to the purchase and completion of new buildings and construction work in progress. Liabilities decreased by \$13.1 million, or 4.1 percent, totaling \$305.7 million at June 30, 2011, compared to \$318.8 million at June 30, 2010. As a result, the University's net assets increased by \$67.7 million, reaching a year-end balance of \$1.1 billion.

The University's operating revenues totaled \$368.8 million for the 2010-11 fiscal year, representing a 5.5 percent increase over the 2009-10 fiscal year primarily due to an increase in student tuition and fees, net of scholarship allowances. Operating expenses totaled \$750.5 million for the 2010-11 fiscal year, representing an increase of 10.7 percent over the 2009-10 fiscal year primarily due to an increase in compensation and employee benefits, services and supplies, and scholarships and fellowships.

Net nonoperating revenues totaled \$409.7 million for the 2010-11 fiscal year, representing a 10.5 percent increase over the 2009-10 fiscal year primarily due to increased realized and unrealized gains on investments and increased Federal and State student financial aid.

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 University's current financial condition. The changes in net assets that occur over time indicate improvement or deterioration in the University's financial condition.

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

Condensed Statement of Net Assets at June 30
(In Thousands)

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets	\$ 479,580	\$ 462,784
Capital Assets, Net	841,578	790,835
Other Noncurrent Assets	<u>72,415</u>	<u>85,320</u>
Total Assets	<u>1,393,573</u>	<u>1,338,939</u>
Liabilities		
Current Liabilities	67,233	77,329
Noncurrent Liabilities	<u>238,463</u>	<u>241,431</u>
Total Liabilities	<u>305,696</u>	<u>318,760</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	666,044	622,708
Restricted	130,498	138,225
Unrestricted	<u>291,335</u>	<u>259,246</u>
Total Net Assets	<u>\$ 1,087,877</u>	<u>\$ 1,020,179</u>

Total assets as of June 30, 2011, increased by \$54.6 million, or 4.1 percent. Net capital assets increased by \$50.7 million due to \$74 million of purchased or completed buildings and construction work in progress, as well as \$35.4 million in other fixed asset purchases, net of retirements, less current year depreciation expense of \$58.7 million. Significant activity during the year included the completion of Parking Garage VI, the Physical Science Building, and the Performing Arts Center; the purchase of the Pegasus Health facility and Bennett building; and the following projects currently in progress: the Combined Heat and Power Plant and the Lake Claire Recreation Area.

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

The statement of revenues, expenses, and changes in net assets presents the University'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.

The following summarizes the University's activity for the 2010-11 and 2009-10 fiscal years:

**Condensed Statement of Revenues, Expenses,
and Changes in Net Assets
(In Thousands)**

	2010-11	2009-10
Operating Revenues	\$ 368,802	\$ 349,671
Operating Expenses	750,469	677,689
Operating Loss	(381,667)	(328,018)
Net Nonoperating Revenues	409,704	370,665
Income Before Other Revenues, Expenses, Gains, or Losses	28,037	42,647
Other Revenues, Expenses, Gains, or Losses	39,661	24,804
Net Increase In Net Assets	67,698	67,451
Net Assets, Beginning of Year	1,020,179	907,977
Adjustments to Beginning Net Assets (1)	44,751	
Net Assets, Beginning of Year, as Restated	1,020,179	952,728
Net Assets, End of Year	\$ 1,087,877	\$ 1,020,179

Note: (1) The University's beginning net assets for the 2009-10 fiscal year was increased for a change in the reporting of State University System Capital Improvement Trust Fund Revenue Bonds.

Operating Revenues

GASB Statement No. 35 categorizes revenues 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 following summarizes the operating revenues by source that were used to fund operating activities during the 2010-11 and 2009-10 fiscal years:

**Operating Revenues
(In Thousands)**

	2010-11	2009-10
Net Tuition and Fees	\$ 204,205	\$ 177,729
Grants and Contracts	106,913	111,088
Sales and Services of Auxiliary Enterprises	52,629	50,261
Other	5,055	10,593
Total Operating Revenues	\$ 368,802	\$ 349,671

Total operating revenues increased \$19.1 million, or 5.5 percent. Net student tuition and fees increased 14.9 percent. The increase was due to both an increase in enrollment of approximately 5 percent as well as an increase in the University's tuition and fee rates of approximately 11 percent.

Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the University's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net assets and has displayed the functional classification in the notes to financial statements.

The following summarizes the operating expenses by natural classifications for the 2010-11 and 2009-10 fiscal years:

Operating Expenses (In Thousands)		
	<u>2010-11</u>	<u>2009-10</u>
Compensation and Employee Benefits	\$ 438,423	\$ 410,218
Services and Supplies	138,972	119,387
Utilities and Communications	23,480	21,100
Scholarships, Fellowships, and Waivers	90,859	75,270
Depreciation	<u>58,735</u>	<u>51,714</u>
Total Operating Expenses	<u>\$ 750,469</u>	<u>\$ 677,689</u>

Total operating expenses increased \$72.8 million, or 10.7 percent. Scholarships, fellowships, and waivers increased \$15.6 million, or 20.7 percent, primarily due to increased Federal Pell grants to students. Services and supplies increased \$19.6 million, or 16.4 percent, primarily due to repairs, maintenance and infrastructure costs and the purchase of noncapitalized tangible personal property. Compensation and employee benefits increased \$28.2 million, or 6.9 percent, primarily due to an increase in staffing related to University growth, salary adjustments, and increased costs for health insurance and other benefits.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2010-11 and 2009-10 fiscal years:

Nonoperating Revenues (Expenses) (In Thousands)		
	<u>2010-11</u>	<u>2009-10</u>
State Noncapital Appropriations	\$ 261,339	\$ 249,905
Federal and State Student Financial Aid	148,387	127,347
State Appropriated American Recovery and Reinvestment Act Funds	18,205	19,029
Investment Income	21,148	5,389
Other Nonoperating Revenues	2,071	2,299
Gain on Disposal of Capital Assets	21	94
Interest on Capital Asset-Related Debt	(8,712)	(8,660)
Other Nonoperating Expenses	<u>(32,755)</u>	<u>(24,738)</u>
Net Nonoperating Revenues	<u>\$ 409,704</u>	<u>\$ 370,665</u>

Net nonoperating revenues increased by \$39 million, or 10.5 percent. Federal and State student financial aid increased by \$21 million, or 16.5 percent, primarily as a result of increased Federal Pell grant funds received. Investment income increased \$15.7 million primarily due to an increase in realized and unrealized gains on investments. Other nonoperating expenses increased by \$8 million, or 32.4 percent, primarily due to a contribution the University made towards the construction of a joint-use classroom facility.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, and donations. The following summarizes the University's other revenues, expenses, gains, or losses for the 2010-11 and 2009-10 fiscal years:

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

	2010-11	2009-10
State Capital Appropriations	\$ 37,169	\$ 16,557
Capital Grants, Contracts, and Donations	<u>2,492</u>	<u>8,247</u>
Total	<u>\$ 39,661</u>	<u>\$ 24,804</u>

State capital appropriations increased \$20.6 million from the prior fiscal year due to increased State funding for new buildings and improvements.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the University'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 University. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2010-11 and 2009-10 fiscal years:

Condensed Statement of Cash Flows (In Thousands)

	2010-11	2009-10
Cash Provided (Used) by:		
Operating Activities	\$ (326,676)	\$ (267,677)
Noncapital Financing Activities	420,909	377,549
Capital and Related Financing Activities	(92,073)	(37,884)
Investing Activities	<u>(7,808)</u>	<u>(155,190)</u>
Net Decrease in Cash and Cash Equivalents	(5,648)	(83,202)
Cash and Cash Equivalents, Beginning of Year	<u>102,332</u>	<u>185,534</u>
Cash and Cash Equivalents, End of Year	<u>\$ 96,684</u>	<u>\$ 102,332</u>

Cash and cash equivalents decreased \$5.6 million. Cash outflows from operating activities increased by \$59 million compared to fiscal year 2009-10, due to increases in payments to employees, payments to suppliers, and payments to

students for scholarships and fellowships. Cash inflows from noncapital financing activities increased by \$43.4 million, due to an increase in State noncapital appropriations and Federal and State student financial aid. Cash outflows for capital and related financing activities increased \$54.2 million due to a reduction in proceeds from the issuance of debt and other sources of capital funds. Cash outflows from investing activities decreased \$147.4 million primarily due to the University investing cash balances into several investment accounts during fiscal year 2009-10 to provide diversification and security.

Major sources of funds came from State noncapital appropriations (\$284.1 million), Federal Direct Student Loans program (\$207.7 million), net student tuition and fees (\$202.3 million), Federal and State student financial aid (\$149.8 million), grants and contracts (\$108.2 million), and sales and services of auxiliary enterprises (\$53.7 million). Major uses of funds were for payments made to employees (\$443.6 million), Federal Direct Student Loans program (\$207.7 million), payments to suppliers for goods and services (\$162.4 million), purchase or construction of capital assets (\$120.4 million), and payments to and on behalf of students for scholarships (\$90.9 million).

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2011, the University had \$1.4 billion in capital assets, less accumulated depreciation of \$544.7 million, for net capital assets of \$841.6 million. Depreciation charges for the current fiscal year totaled \$58.7 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30 (In Thousands)

	2011	2010
Land	\$ 9,685	\$ 9,685
Buildings	687,609	531,881
Construction in Progress	11,460	119,777
Infrastructure and Other Improvements	33,015	34,370
Furniture and Equipment	59,875	54,551
Library Resources	27,849	27,610
Leasehold Improvements	9,133	10,439
Works of Art and Historical Treasures	1,016	828
Other Capital Assets	1,936	1,694
Capital Assets, Net	\$ 841,578	\$ 790,835

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

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2011, were incurred on the following projects currently in progress: the Combined Heat and Power Plant; the Lake Claire Recreation Area; the Mechanical, Materials and Aerospace Engineering Laboratory; and Classroom Building II. The University’s capital commitments at June 30, 2011, are as follows:

	Amount (In Thousands)
Total Committed	\$ 17,425
Completed to Date	<u>(11,460)</u>
Balance Committed	<u>\$ 5,965</u>

Additional information about the University’s capital commitments is presented in the notes to financial statements.

DEBT ADMINISTRATION

As of June 30, 2011, the University had \$182.3 million in outstanding capital improvement debt payable, bonds payable, loans and notes payable, and installment purchases payable, representing a decrease of \$9.3 million, or 4.8 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt, at June 30		
(In Thousands)		
	<u>2011</u>	<u>2010</u>
Capital Improvement Debt Payable	\$ 119,564	\$ 125,689
Bonds Payable	58,925	60,000
Loans and Notes Payable	3,316	4,900
Installment Purchases Payable	<u>491</u>	<u>997</u>
Total	<u>\$ 182,296</u>	<u>\$ 191,586</u>

Additional information about the University’s long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The primary economic factors impacting the University’s ability to meet its core mission, support ongoing operations, and undertake new initiatives include the level of political and financial support from the Florida Legislature, student tuition and fee increases, and market changes in compensation and benefit packages. The University manages these factors by encouraging the conservation of resources and entrepreneurial efforts in both departments and auxiliaries.

The budget that the Florida Legislature adopted for the 2011-12 fiscal year provided a \$32.3 million decrease in State noncapital appropriations for the University. This amount includes the elimination of \$18.2 million of American Recovery and Reinvestment Act funds, which was anticipated. The Legislature did not provide additional funding for enrollment growth at State universities or salary increases for State university employees. State noncapital appropriations, as a percentage of operating revenues and nonoperating revenues, represent approximately 34.1 percent of the total of these combined revenues for the 2010-11 fiscal year. The level of State support is, therefore, one of the key factors influencing the University’s activities.

Gross tuition and fee revenues increased \$39.4 million for the 2010-11 fiscal year. This increase was possible due to enrollment growth, a legislatively approved 8 percent increase for undergraduate credit hours and a tuition differential

fee that allowed the University to increase undergraduate tuition up to 15 percent. The same factors are expected to increase tuition and fee revenue for the 2011-12 fiscal year. These increases will help to offset the decline in State noncapital appropriations and the elimination of Federal stimulus support.

The University's financial outlook for the future remains positive due in large part to its increasing reputation and emergence as a school of choice. The Fall 2011 enrollment of 58,701 students increased 4.2 percent over the Fall 2010 enrollment of 56,337 students. Initiatives targeted at increasing the undergraduate retention and graduation rate will continue to enhance the University's ability to attract and retain high quality students.

Once again the University finished the 2010-11 fiscal year with an increase in total net assets over the previous year and is well positioned to continue providing excellence in education programs. The University's tuition levels remain relatively low and continue to attract top students. The factors described above indicate a bright future for the University.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Tracy Clark, CPA, Assistant Vice President for Finance, Controller, University of Central Florida, 12424 Research Parkway, Suite 300, Orlando, Florida 32826-3249.

BASIC FINANCIAL STATEMENTS

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2011**

	<u>University</u>	<u>Component Units</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 82,670,178	\$ 55,174,893
Investments	305,371,414	6,053,082
Accounts Receivable, Net	33,678,350	5,378,197
Loans and Notes Receivable, Net	905,962	
Due from State	53,046,929	
Due from Component Units	768,002	1,013,696
Due from University		7,545,617
Inventories	1,935,317	
Other Current Assets	1,203,582	1,555,006
Total Current Assets	<u>479,579,734</u>	<u>76,720,491</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	14,013,540	870,388
Restricted Investments	32,395,892	142,656,820
Loans and Notes Receivable, Net	5,163,596	2,696,142
Depreciable Capital Assets, Net	820,136,866	291,508,402
Nondepreciable Capital Assets	21,440,744	51,299,804
Due from Component Units	10,353,158	137,110
Other Noncurrent Assets	10,489,538	11,077,993
Total Noncurrent Assets	<u>913,993,334</u>	<u>500,246,659</u>
TOTAL ASSETS	<u>\$ 1,393,573,068</u>	<u>\$ 576,967,150</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 13,038,888	\$ 4,772,390
Construction Contracts Payable	8,468,952	
Salaries and Wages Payable	8,438,744	
Deposits Payable	5,950,901	
Due to Component Units	7,545,617	1,013,696
Due to University		768,002
Deferred Revenue	12,993,648	9,177,514
Other Current Liabilities	298,958	9,964,502
Long-Term Liabilities - Current Portion:		
Capital Improvement Debt Payable	6,430,000	
Bonds Payable	1,130,000	
Certificates of Participation Payable		6,145,000
Loans and Notes Payable		3,474,977
Installment Purchases Payable	490,514	
Capital Leases Payable		17,292
Compensated Absences Payable	2,446,242	169,189
Total Current Liabilities	<u>67,232,464</u>	<u>35,502,562</u>

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2011

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Capital Improvement Debt Payable	\$ 113,133,762	\$
Bonds Payable	57,795,000	
Certificates of Participation Payable		271,120,954
Loans and Notes Payable	3,315,922	31,241,627
Compensated Absences Payable	32,500,072	751,443
Other Postemployment Benefits Payable	15,988,000	
Due to Component Units		137,110
Due to University		10,353,158
Other Noncurrent Liabilities	15,730,658	16,000,687
Total Noncurrent Liabilities	238,463,414	329,604,979
TOTAL LIABILITIES	305,695,878	365,107,541
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	666,044,055	9,886,696
Restricted for Nonexpendable:		
Endowment		112,683,366
Restricted for Expendable:		
Debt Service	1,428,542	
Loans	3,518,925	
Capital Projects	73,623,904	
Other	51,926,860	66,456,262
Unrestricted	291,334,904	22,833,285
TOTAL NET ASSETS	1,087,877,190	211,859,609
TOTAL LIABILITIES AND NET ASSETS	\$ 1,393,573,068	\$ 576,967,150

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

**UNIVERSITY OF CENTRAL 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, 2011**

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$92,332,762	\$ 204,204,853	\$
Federal Grants and Contracts	81,738,472	
State and Local Grants and Contracts	9,388,268	
Nongovernmental Grants and Contracts	15,786,575	
Sales and Services of Auxiliary Enterprises	52,629,029	
Royalties and Licensing Fees		9,799,387
Gifts and Donations		10,308,147
Interest on Loans and Notes Receivable	15,719	
Other Operating Revenues	5,038,716	103,516,011
Total Operating Revenues	368,801,632	123,623,545
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	438,422,476	12,343,862
Services and Supplies	138,972,385	74,233,793
Utilities and Communications	23,480,185	
Scholarships, Fellowships, and Waivers	90,858,509	
Depreciation	58,734,998	10,973,246
Total Operating Expenses	750,468,553	97,550,901
Operating Income (Loss)	(381,666,921)	26,072,644
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	261,339,215	
Federal and State Student Financial Aid	148,387,094	
State Appropriated American Recovery and Reinvestment Act Funds	18,204,477	
Investment Income	21,147,728	733,067
Gain on Disposal of Capital Assets	21,187	
Other Nonoperating Revenues	2,070,957	7,181,997
Interest on Capital Asset-Related Debt	(8,711,961)	(13,499,696)
Other Nonoperating Expenses	(32,754,568)	(2,460,224)
Net Nonoperating Revenues (Expenses)	409,704,129	(8,044,856)
Income Before Other Revenues, Expenses, Gains, or Losses	28,037,208	18,027,788
State Capital Appropriations	37,169,150	
Capital Grants, Contracts, Donations, and Fees	2,492,202	
Additions to Permanent Endowments		4,041,305
Increase in Net Assets	67,698,560	22,069,093
Net Assets, Beginning of Year	1,020,178,630	188,976,530
Adjustment to Beginning Net Assets		813,986
Net Assets, Beginning of Year, as Restated	1,020,178,630	189,790,516
Net Assets, End of Year	\$ 1,087,877,190	\$ 211,859,609

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

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2011

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 202,281,318
Grants and Contracts	108,227,842
Sales and Services of Auxiliary Enterprises	53,715,698
Interest on Loans and Notes Receivable	141,227
Payments to Employees	(443,566,442)
Payments to Suppliers for Goods and Services	(162,424,759)
Payments to Students for Scholarships and Fellowships	(90,858,509)
Net Repayments on Loans Issued to Students	755,841
Other Operating Receipts	5,051,335
	(326,676,449)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Capital Appropriations	265,884,822
Federal and State Student Financial Aid	149,842,679
State Appropriated American Recovery and Reinvestment Act Funds	18,204,477
Direct Loan Program Receipts	207,672,462
Direct Loan Program Disbursements	(207,672,462)
Net Change in Funds Held for Others	6,640,951
Other Nonoperating Disbursements	(19,664,063)
	420,908,866
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	50,418,813
Capital Grants, Contracts, and Donations	2,170,535
Capital Subsidies and Transfers	(6,287,895)
Other Receipts for Capital Projects	43,969
Purchase or Construction of Capital Assets	(120,415,695)
Principal Paid on Capital Debt and Leases	(9,340,261)
Interest Paid on Capital Debt and Leases	(8,661,944)
	(92,072,478)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(15,665,130)
Investment Income	7,856,974
	(7,808,156)
Net Decrease in Cash and Cash Equivalents	(5,648,217)
Cash and Cash Equivalents, Beginning of Year	102,331,935
Cash and Cash Equivalents, End of Year	\$ 96,683,718

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2011**

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (381,666,921)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	58,734,998
Change in Assets and Liabilities:	
Receivables, Net	(966,076)
Inventories	171,264
Other Assets	(79,514)
Accounts Payable	(88,821)
Salaries and Wages Payable	(12,433,735)
Compensated Absences Payable	2,111,769
Deferred Revenue	2,433,215
Other Liabilities	(70,628)
Other Postemployment Benefits Payable	5,178,000
NET CASH USED BY OPERATING ACTIVITIES	\$ (326,676,449)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Unrealized gains on investments were recognized as income on the statement of revenues, expenses, and changes in net assets, but are not considered a source of cash for the statement of cash flows.	\$ 12,654,292

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

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting 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 are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations. The Trustees select the University President. 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.

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. These criteria were used to evaluate potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, the University is a component unit of the State of Florida, and its financial balances and activities are 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 UCF Finance Corporation (Corporation) is included within the University's reporting entity as a blended component unit. The purpose of the Corporation is to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University.

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following direct-support organizations (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011) are included within the University reporting entity as discretely presented component units. These legally separate, not-for-profit, corporations are 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. These organizations and their purposes are explained as follows:

- The University of Central Florida Foundation, Inc., is a not-for-profit Florida corporation whose principal function is to provide charitable and educational aid to the University.
- The University of Central Florida Research Foundation, Inc., was organized to promote and encourage, as well as assist in, the research activities of the University's faculty, staff, and students.

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

- The UCF Athletics Association, Inc., was organized to promote intercollegiate athletics to benefit the University and surrounding communities.
- The UCF Convocation Corporation was created to finance and construct a convocation center, and to manage the Towers student housing and its related retail space on the north side of campus.
- The Golden Knights Corporation was created to finance, build, and administer an on-campus football stadium.

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. Additional information on the University's discretely presented component units, including copies of audit reports, is available by contacting the University's Assistant Vice President for Finance, Controller. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

Basis of Presentation. The University's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by 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). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide 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
- Other Required Supplementary Information

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.

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

The University's discretely presented component units use the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follow GASB standards of accounting and financial reporting for State and local governmental entities.

The University applies all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, has elected to apply FASB pronouncements issued on or before November 30, 1989 that are not in conflict with GASB standards.

Significant interdepartmental sales between auxiliary service departments and other institutional departments have been accounted for 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 as well as administration, operation and maintenance of capital assets, and depreciation on capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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, 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 a student or a 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 reported net tuition scholarship allowances. 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 third-party aid.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Cash and Cash Equivalents - University. Amounts reported as cash and cash equivalents consist of cash on hand, cash in demand accounts, money market funds, and investments with original maturities of three months or less. The University's cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. The University also holds \$65,833,324 in money market funds and short-term investments. The money market funds and investments are permissible under the current investment policy

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

and are rated AAA by Standard & Poor's. The Corporation, a blended component unit, holds \$4,646,490 in money market funds. The money market funds are uninsured, but collateralized by securities held by the financial institutions, not in the name of the Corporation. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or purchase or construct capital or other restricted assets are classified as restricted.

Cash and Cash Equivalents – Discretely Presented Component Units. Amounts reported as cash and cash equivalents include: \$12,136,067 of cash deposited in money market accounts that are not insured by Federal deposit insurance and are not collateralized, \$13,804,079 deposited in money market funds that are uninsured and collateralized by securities held by the institution not in the component unit's name, and \$9,263,015 invested in short-term guaranteed investment contracts that were purchased by the component unit to invest bond proceeds for various construction projects on campus.

Capital Assets. University capital assets consist of land, construction in progress, buildings, infrastructure and other improvements, furniture and equipment, library resources, leasehold improvements, works of art and historical treasures, and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition, or at estimated fair value at the date received in the case of gifts and 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 tangible personal property and \$100,000 for new buildings and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 20 to 50 years
- Infrastructure and Other Improvements – 12 to 50 years
- Furniture and Equipment – 5 to 10 years
- Library Resources – 10 years
- Leasehold Improvements – 10 years
- Works of Art and Historical Treasures – 5 to 15 years
- Other Capital Assets – 5 to 10 years

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of capital improvement debt payable, bonds payable, loans and notes payable, compensated absences payable, other postemployment benefits payable, and other noncurrent liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized premium or discount and deferred losses on refunding. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the debt using the straight-line method.

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities 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 University 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.

The University’s investments at June 30, 2011, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
External Investment Pools:	
State Treasury Special Purpose Investment Account	\$ 180,422,063
State Board of Administration Florida PRIME	1,208
State Board of Administration Fund B Surplus Funds Trust Fund	243
State Board of Administration Debt Service Accounts	1,416,348
Certificates of Deposit	1,232,066
United States Government and Federally-Guaranteed Obligations	42,499,060
Federal Agency Obligations	16,326,191
Bonds and Notes	39,097,435
Stocks and Other Equity Securities	42,562,233
Mutual Funds - Equities	<u>14,210,459</u>
Total University Investments	<u><u>\$ 337,767,306</u></u>

Investments held by the University’s component units at June 30, 2011 are reported at fair value, as follows:

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Investment Type	University of Central Florida Foundation, Inc.	University of Central Florida Research Foundation, Inc.	Total
Mutual Funds - Bonds	\$ 45,333,954	\$	\$ 45,333,954
Mutual Funds - Equities	83,715,652	49,813	83,765,465
Hedge Funds	14,532,661		14,532,661
Private Equity Funds	80,264		80,264
Real Estate Assets - REITS	165,859		165,859
Real Assets Fixed Income	1,230,517		1,230,517
Exchange Traded Funds	1,569,076		1,569,076
Stocks and Other Equity Securities	1,663,417	368,689	2,032,106
Total Component Units Investments	\$ 148,291,400	\$ 418,502	\$ 148,709,902

External Investment Pools

State Treasury Special Purpose Investment Account. The University reported investments at fair value totaling \$180,422,063 at June 30, 2011, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of Af by Standard & Poor's and had an effective duration of 2.13 years at June 30, 2011. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

State Board of Administration Debt Service Accounts. The University reported investments at fair value totaling \$1,416,348 at June 30, 2011, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Administration for the benefit of the University. The University's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The University relies on policies developed by the SBA for managing interest rate risk or credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Other Investments

The University and its discretely presented component units invested in various debt and equity securities, money market funds, mutual funds, and certificates of deposit. The following risks apply to the University's and its discretely presented component units' investments other than external investment pools:

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 University's investments in securities must provide sufficient liquidity to pay obligations as they come due. Investments of the University and its component units in debt securities and bond mutual funds, and their future maturities at June 30, 2011, are as follows:

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

University Debt Investments Maturities

Investment Type	Fair Value	Investments Maturities (In Years)		
		Less Than 1	1 - 5	More Than 5
United States Government and Federally-Guaranteed Obligations	\$ 42,499,060	\$ 19,157,966	\$ 20,328,356	\$ 3,012,738
Federal Agency Obligations	16,326,191		2,895,583	13,430,608
Bonds and Notes	39,097,435	1,817,422	28,688,636	8,591,377
Total University	\$ 97,922,686	\$ 20,975,388	\$ 51,912,575	\$ 25,034,723

Component Units' Debt Investments Maturities

Investment Type	Fair Value	Investments Maturities (In Years)		
		Less Than 1	1 - 5	More Than 5
Mutual Funds - Bonds	\$ 45,333,954	\$ 12,189,833	\$ 30,937,087	\$ 2,207,034
Real Assets Fixed Income	1,230,517		1,230,517	
Total Component Units	\$ 46,564,471	\$ 12,189,833	\$ 32,167,604	\$ 2,207,034

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the United States government or obligations explicitly guaranteed by the United States government are not considered to have credit risk and do not require disclosure of credit quality. 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 component units' investment policies provide information on asset classes, target allocations, and ranges of acceptable investment categories. The following schedule represents the ratings at June 30, 2011 of the University's and its component units' debt instruments using Standard & Poor's, a nationally recognized rating agency:

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

University Debt Investments Quality Ratings					
Investment Type	Fair Value	AAA	AA	A	Less Than A or Not Rated
Federal Agency Obligations	\$ 16,326,191	\$ 15,988,823	\$	\$	\$ 337,368 (1)
Bonds and Notes	39,097,435	23,064,069	3,707,717	10,255,162	2,070,487 (2)
Total University	\$ 55,423,626	\$ 39,052,892	\$ 3,707,717	\$ 10,255,162	\$ 2,407,855

Component Units' Debt Investments Quality Ratings					
Investment Type	Fair Value	AAA	AA	A	Less Than A
Mutual Funds - Bonds	\$ 45,333,954	\$ 14,202,175	\$ 13,363,205	\$ 8,492,403	\$ 9,276,171
Real Assets Fixed Income	1,230,517		1,230,517		
Total Component Units	\$ 46,564,471	\$ 14,202,175	\$ 14,593,722	\$ 8,492,403	\$ 9,276,171

Notes: (1) These investments were not rated.
(2) Investments of \$1,000,477 were not rated.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University's or its component unit's investments in a single issuer. The University's and its component units' investment policies require diversification sufficient to reduce the potential of a single security, single sector of securities, or single style of management having a disproportionate or significant impact on the portfolio. The University's policy states that not more than five percent of the investment portfolio's assets shall be invested in securities on any one issuing company, and no single corporate bond issuer shall exceed five percent of the portfolio. The University's component units' policies require diversification of investments sufficient to reduce the potential of a single security, single sector of securities, or a single style of management having a disproportionate or significant impact on the portfolio. Guidelines for individual sectors of the portfolio further indicate percentage limitations.

3. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, grant and contract reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2011, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 16,760,148
Student Tuition and Fees	12,429,393
Other	4,488,809
Total Accounts Receivable, Net	\$ 33,678,350

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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.

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts, and loans and notes receivable, are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of \$811,316 and \$524,974, respectively, at June 30, 2011.

4. DUE FROM STATE

This amount consists of \$53,046,929 of Public Education Capital Outlay, Capital Improvement Fees, and General Revenue due from the State for construction of University facilities.

5. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 9,684,659	\$	\$	\$ 9,684,659
Works of Art and Historical Treasures	295,750			295,750
Construction in Progress	119,777,465	9,195,472	117,512,602	11,460,335
Total Nondepreciable Capital Assets	\$ 129,757,874	\$ 9,195,472	\$ 117,512,602	\$ 21,440,744
Depreciable Capital Assets:				
Buildings	\$ 748,412,571	\$ 182,368,617	\$ 286,501	\$ 930,494,687
Infrastructure and Other Improvements	48,010,062	701,996		48,712,058
Furniture and Equipment	222,435,642	27,165,234	8,255,527	241,345,349
Library Resources	102,310,878	6,044,171	169,357	108,185,692
Leasehold Improvements	16,292,259	466,816		16,759,075
Works of Art and Historical Treasures	927,276	317,248		1,244,524
Other Capital Assets	17,367,987	967,042	250,129	18,084,900
Total Depreciable Capital Assets	1,155,756,675	218,031,124	8,961,514	1,364,826,285
Less, Accumulated Depreciation:				
Buildings	216,531,341	26,593,256	238,447	242,886,150
Infrastructure and Other Improvements	13,640,111	2,057,108		15,697,219
Furniture and Equipment	167,884,317	21,824,894	8,239,117	181,470,094
Library Resources	74,701,206	5,635,571		80,336,777
Leasehold Improvements	5,853,459	1,772,810		7,626,269
Works of Art and Historical Treasures	395,426	129,105		524,531
Other Capital Assets	15,673,689	722,254	247,564	16,148,379
Total Accumulated Depreciation	494,679,549	58,734,998	8,725,128	544,689,419
Total Depreciable Capital Assets, Net	\$ 661,077,126	\$ 159,296,126	\$ 236,386	\$ 820,136,866

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

6. DEFERRED REVENUE

Deferred revenue includes student tuition and fees received prior to fiscal year-end related to subsequent accounting periods, auxiliary prepayments, and grant and contract prepayments. As of June 30, 2011, the University reported the following amounts as deferred revenue:

<u>Description</u>	<u>Amount</u>
Grant and Contract Prepayments	\$ 7,502,235
Auxiliary Prepayments	4,655,189
Student Tuition and Fees	<u>836,224</u>
Total Deferred Revenue	<u>\$ 12,993,648</u>

7. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2011, include capital improvement debt payable, bonds payable, loans and notes payable, installment purchases payable, compensated absences payable, other postemployment benefits payable, and other noncurrent liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2011, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Capital Improvement Debt Payable	\$ 125,688,745	\$	\$ 6,124,983	\$ 119,563,762	\$ 6,430,000
Bonds Payable	60,000,000		1,075,000	58,925,000	1,130,000
Loans and Notes Payable	4,900,000		1,584,078	3,315,922	
Installment Purchases Payable	996,697		506,183	490,514	490,514
Compensated Absences Payable	32,834,545	4,664,924	2,553,155	34,946,314	2,446,242
Other Postemployment Benefits Payable	10,810,000	6,754,000	1,576,000	15,988,000	
Other Noncurrent Liabilities	<u>16,584,335</u>	<u>180,000</u>	<u>1,033,677</u>	<u>15,730,658</u>	
Total Long-Term Liabilities	<u>\$ 251,814,322</u>	<u>\$ 11,598,924</u>	<u>\$ 14,453,076</u>	<u>\$ 248,960,170</u>	<u>\$ 10,496,756</u>

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2011:

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Auxiliary Revenue Bonds:				
1992 - Housing	\$ 19,080,000	\$ 413,572	6.0	2013
1997 - Bookstore	3,570,000	1,479,857	5.0 - 5.125	2017
1997 - Parking Garage II	7,960,000	3,669,229	5.15 - 5.375	2018
1999 - Parking Garage III	8,435,000	4,648,808	4.25 - 4.75	2020
2000 - Housing	31,695,000	26,370,690	4.875 - 5.25	2031
2001 - Parking Garage IV	7,770,000	5,034,963	4.45 - 5.0	2022
2002 - Housing	14,055,000	9,606,227	3.5 - 4.5	2021
2004A - Student Health Center	8,000,000	5,858,220	4.0 - 5.0	2024
2004A - Parking Garage V	18,455,000	12,320,015	3.5 - 4.2	2024
2007A - Housing	38,780,000	35,694,258	4.0 - 5.5	2030
2010A - Parking Garage VI	3,855,000	3,327,923	4.0	2016
2010B - Parking Garage VI	11,140,000	11,140,000	4.5 - 6.2	2029
Total Capital Improvement Debt	<u>\$ 172,795,000</u>	<u>\$ 119,563,762</u>		

Note: (1) Amount outstanding includes unamortized discounts and premiums, and deferred losses on refunding issues.

The capital improvement revenue bonds are payable solely from traffic and parking fees, housing rental revenues, bookstore revenues, and an assessed transportation and health fee on credit hours through 2031. The University has pledged a portion of these fees and revenues to repay \$119,563,762 in capital improvement revenue bonds issued by the Florida Board of Governors on behalf of the University. Total principal and interest remaining on the debt is \$175,261,910, and principal and interest paid for the current year totaled \$12,167,330. During the 2010-11 fiscal year, operating revenues generated from bookstore revenues; housing rental revenues; parking and transportation fees; and health service facility fees totaled \$1,778,198, \$23,535,761, \$16,416,874, and \$15,938,844, respectively.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2011, are as follows:

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 6,430,000	\$ 5,730,993	\$ 12,160,993
2013	6,715,000	5,450,275	12,165,275
2014	6,995,000	5,160,854	12,155,854
2015	7,315,000	4,856,280	12,171,280
2016	7,630,000	4,538,693	12,168,693
2017-2021	36,760,000	17,440,773	54,200,773
2022-2026	28,485,000	9,128,669	37,613,669
2027-2031	20,275,000	2,350,373	22,625,373
Subtotal	120,605,000	54,656,910	175,261,910
Less: Net Discounts, Premiums and Losses on Bond Refundings	1,041,238		1,041,238
Total	<u>\$ 119,563,762</u>	<u>\$ 54,656,910</u>	<u>\$ 174,220,672</u>

Bonds Payable. The Corporation issued \$60 million in bonds payable to finance the cost of the construction of the Burnett Biomedical Sciences Center, part of the University’s medical school. The bonds are secured by indirect cost revenues received by the University from Federal, State, and private grants and further secured by a letter of credit issued by a local bank not to exceed \$60 million. The bonds are variable interest rate bonds with an interest rate of 4.54 percent at June 30, 2011. They mature on July 1, 2037.

The University agreed to use a ground sublease to lease to its blended component unit, the Corporation, a parcel of property located in Orange County, Florida where approximately 198,000 square feet of classroom, laboratory, and administrative office space, together with related infrastructure, was constructed. The facilities are used solely for education and research purposes and are operated and managed by the University. The University and the Corporation entered into an agreement where the Corporation leases the facilities to the University for the occupancy of the facilities.

The University has agreed to pay a base rent equal to all amounts due and payable under the bond indenture and all amounts required to be paid associated with the bond issuance.

Annual requirements to amortize the outstanding bonds as of June 30, 2011 are as follows:

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 1,130,000	\$ 2,578,558	\$ 3,708,558
2013	1,175,000	2,529,109	3,704,109
2014	1,240,000	2,477,691	3,717,691
2015	1,295,000	2,423,429	3,718,429
2016	1,355,000	2,366,760	3,721,760
2017-2021	7,790,000	10,886,613	18,676,613
2022-2026	9,805,000	9,013,466	18,818,466
2027-2031	12,335,000	6,657,865	18,992,865
2032-2036	15,520,000	3,692,906	19,212,906
2037-2038	7,280,000	481,578	7,761,578
Total	\$ 58,925,000	\$ 43,107,975	\$ 102,032,975

The Corporation entered into an interest rate swap agreement in connection with its \$60 million variable-rate bond issuance as a means to lower its borrowing costs, when compared with fixed-rate bonds at the time of their issuance in June 2007. The Corporation utilizes such derivatives to manage the risk of rising interest rates on its variable interest rate-based debt. The counterparty to the interest rate swap agreement is a regional bank. Credit loss from counterparty nonperformance is not anticipated. Under the interest rate swap agreement, the Corporation pays the counterparty a fixed payment of 4.38 percent and receives a variable payment based on the Securities Industry and Financial Market Association swap index (0.09 percent at June 30, 2011). The variable-rate coupons of the bonds are reset weekly by auction. As of June 30, 2011, the Corporation was not exposed to credit risk on this interest rate swap agreement because it had a negative fair value of \$8,793,996, which is reported in other noncurrent liabilities on the statement of net assets. This liability reflects the theoretical settlement amount the Corporation would have to pay on June 30, 2011, to cancel the interest rate swap agreement. The liability is estimated based on valuation models. If interest rates change and the fair value of the interest rate swap agreement becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. In accordance with the Corporation's policy to mitigate the potential for credit risk, the Corporation requires that the fair value of the interest rate swap agreement be fully collateralized by a letter of credit if the counterparty's credit quality falls below AA/Aa.

Loans and Notes Payable. In the 2007-08 fiscal year, the Corporation entered into a line of credit agreement of \$37 million with a local bank. During the 2009-10 fiscal year, this line of credit was terminated and a note was created for the \$4.9 million outstanding amount. The proceeds of the note were used for the construction of a health facility for the University's medical school. The note carries a variable interest rate of 63.7 percent of one month LIBOR (0.185 percent at June 30, 2011) plus 1.35 percent. It matures in July 2012. The Corporation is required to make interest-only payments until the principal is due July 1, 2012. The note is collateralized by designated revenues for the payment of debt service. At June 30, 2011, the total outstanding balance of the note was \$3,315,922.

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors' Regulations, University Regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital 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. At June 30, 2011, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$34,946,314. The current portion of the compensated absences liability is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last three years calculated as a percentage of those years' total compensated absences liability.

Other Postemployment Benefits Payable. The University follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits administered by the State Group Health Insurance Program.

Plan Description. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer defined-benefit plan (Plan). The University subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the Plan information is not included in the report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. As of July 1, 2009, the most recent actuarial date, 450 retirees received postemployment healthcare benefits. For the 2010-11 fiscal year, the University provided required contributions of \$1,576,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$2,556,000.

Annual OPEB Cost and Net OPEB Obligation. The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

period not to exceed 30 years. The following table shows the University’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University’s net OPEB obligation:

Description	Amount
Normal Cost (Service Cost for One Year)	\$ 3,751,000
Amortization of Unfunded Actuarial Accrued Liability	2,674,000
Interest on Normal Cost and Amortization	257,000
Annual Required Contribution	6,682,000
Interest on Net OPEB Obligation	432,000
Adjustment to Annual Required Contribution	(360,000)
Annual OPEB Cost (Expense)	6,754,000
Contribution Toward the OPEB Cost	(1,576,000)
Increase in Net OPEB Obligation	5,178,000
Net OPEB Obligation, Beginning of Year	10,810,000
Net OPEB Obligation, End of Year	\$ 15,988,000

The University’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2011, and for the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$ 3,850,000	38.9%	\$ 5,217,000
2009-10	7,149,000	21.8%	10,810,000
2010-11	6,754,000	23.3%	15,988,000

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$83,256,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$83,256,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$274,562,240 for the 2010-11 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 30.3 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The University's OPEB actuarial valuation as of July 1, 2009, used the entry-age cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and the University's 2010-11 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Healthcare cost trend rates were 9.02 percent, 9.47 percent, and 9.62 percent for the current and two subsequent years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 7.11 percent, 10.5 percent and 10.5 percent for the current and two subsequent years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates are both 6.6 percent in the fourth year grading identically to 5.1 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, was 26 years.

Other Noncurrent Liabilities. Other noncurrent liabilities primarily include the liability for the Federal Perkins Loan Program and the liability for an interest rate swap agreement. The University participates in the Federal Perkins Loan Program. Under this program, the University receives Federal capital contributions that must be returned to the Federal Government if the program has excess cash or the University ceases to participate in the program. Federal capital contributions held by the University totaled \$6,756,662 at June 30, 2011.

As described previously in the Bonds Payable paragraph above, the University's blended component unit (Corporation) entered into an interest rate swap agreement in connection with its \$60 million bond issuance. As of June 30, 2011, this interest rate swap agreement had a negative fair value of \$8,793,996.

Certificate of Participation Payable – Component Units. During the 2004-05 and 2005-06 fiscal years, two certificates of participation were issued by the UCF Convocation Corporation to fund the construction of four residential housing towers, two adjacent parking facilities, and certain surrounding commercial retail space. Also during the 2005-06 fiscal year, the Convocation Corporation issued two additional certificates of participation to fund the acquisition, construction, and installation of a new convocation center; renovation of the existing University Arena; and construction of related infrastructure. The outstanding balance of these certificates at June 30, 2011 was \$228,025,000, before an unamortized premium of \$4,970,811.

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

During the 2006-07 fiscal year, certificates of participation were issued by the Golden Knights Corporation for the construction of a football stadium on the campus of the University. The outstanding balance of these certificates at June 30, 2011 was \$43,770,000, before an unamortized premium of \$500,143. The certificates are secured by a pledge from the University of Central Florida Athletic Association, Inc., of gross ticket revenues, stadium club seats, and luxury suite contributions.

The University entered into support agreements with the UCF Convocation Corporation and the Golden Knights Corporation such that it will fund certain deficiencies that may arise in the event either corporation is unable to make the minimum payments on the bonds. The University is obligated only to the extent it has legally available revenues to cover the unpaid amounts.

8. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the University are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to FRS 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 eligibility, contributions, and benefits are defined and described in detail. FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

Employees in the Plan vest at six years of service. All vested 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; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2010-11 fiscal year were as follows:

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Senior Management Service	0.00	14.57
Florida Retirement System, Special Risk	0.00	23.25
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include .03 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon retirement class in which reemployed.

The University’s liability for participation 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 contributions for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled \$9,086,471, \$9,088,946, and \$10,553,207, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 568 University participants during the 2010-11 fiscal year. Required contributions made to the PEORP totaled \$2,350,008.

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

State University System Optional Retirement Program. Section 121.35, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible university instructors and administrators. The Program is designed to aid State universities in recruiting employees by offering more portability to employees not expected to remain in the FRS for six or more years.

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant 10.43 percent of the participant’s salary, less a small amount used to cover 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 payroll deduction, an amount not to exceed the percentage contributed by the university to the participant’s annuity account.

There were 2,047 University participants during the 2010-11 fiscal year. Required employer contributions made to the Program totaled \$15,957,988 and employee contributions totaled \$6,846,679.

9. CONSTRUCTION COMMITMENTS

The University’s construction commitments at June 30, 2011, are as follows:

<u>Project Description</u>	<u>Total Committed</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Combined Heat and Power Plant	\$ 7,773,899	\$ 6,525,860	\$ 1,248,039
Lake Claire Recreation Area	3,864,884	3,679,659	185,225
Mechanical, Materials and Aerospace Engineering Laboratory	1,687,944	369,194	1,318,750
Classroom Building II	1,428,515	159,623	1,268,892
Other	2,670,018	725,999	1,944,019
Total	<u>\$ 17,425,260</u>	<u>\$ 11,460,335</u>	<u>\$ 5,964,925</u>

10. OPERATING LEASE COMMITMENTS

The University leased buildings under operating leases, which expire in 2016. 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 when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for noncancelable operating leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2012	\$ 9,967,621
2013	9,740,602
2014	3,587,819
2015	1,901,135
2016	353,637
Total Minimum Payments Required	<u>\$ 25,550,814</u>

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

11. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2010-11 fiscal year, for property losses, the State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$58.75 million for named windstorm and flood losses through February 14, 2011, and increased to \$61 million starting February 15, 2011. For perils other than named wind and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights, and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$100,000 per person, and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three fiscal years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain healthcare services through participation in the State 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 actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

12. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (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 operating expenses on the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Functional Classification	Amount
Instruction	\$ 234,258,157
Research	96,440,863
Public Services	6,402,518
Academic Support	53,448,396
Student Services	34,215,358
Institutional Support	73,652,996
Operation and Maintenance of Plant	40,592,553
Scholarships and Fellowships	90,858,509
Depreciation	58,734,998
Auxiliary Enterprises	61,443,049
Loan Operations	421,156
Total Operating Expenses	\$ 750,468,553

13. SEGMENT INFORMATION

A segment is defined as 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 related revenues, expenses, gains, losses, assets, and liabilities are required to be accounted for separately. The following financial information for the University's Bookstore, Housing, Parking, and Health Services facilities represents identifiable activities for which one or more capital improvement debt instruments are outstanding:

Condensed Statement of Net Assets

	Bookstore Capital Improvement Debt	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt	Health Service Facility Capital Improvement Debt
Assets				
Current Assets	\$ 2,582,477	\$ 9,407,565	\$ 8,665,789	\$ 3,925,410
Capital Assets, Net	3,317,589	70,542,770	53,553,187	9,083,162
Other Noncurrent Assets	585,920	4,180,372	8,890,646	2,151,218
Total Assets	6,485,986	84,130,707	71,109,622	15,159,790
Liabilities				
Current Liabilities	220,777	6,794,434	3,726,151	640,579
Noncurrent Liabilities	1,259,858	69,510,558	37,396,635	5,994,911
Total Liabilities	1,480,635	76,304,992	41,122,786	6,635,490
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,870,051	(674,810)	13,983,561	3,313,067
Restricted - Expendable	560,062	3,376,079	7,704,263	2,072,491
Unrestricted	2,575,238	5,124,446	8,299,012	3,138,742
Total Net Assets	\$ 5,005,351	\$ 7,825,715	\$ 29,986,836	\$ 8,524,300

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

	Bookstore Capital Improvement Debt	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt	Health Service Facility Capital Improvement Debt
Operating Revenues	\$ 1,778,198	\$ 23,535,761	\$ 16,416,874	\$ 15,938,844
Depreciation Expense	(164,831)	(3,660,553)	(1,863,496)	(563,524)
Other Operating Expenses	<u>(441,847)</u>	<u>(11,906,830)</u>	<u>(8,970,726)</u>	<u>(12,970,326)</u>
Operating Income	<u>1,171,520</u>	<u>7,968,378</u>	<u>5,582,652</u>	<u>2,404,994</u>
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	118,502	698,744	873,725	235,458
Interest Expense	(86,813)	(3,727,757)	(1,733,021)	(289,839)
Other Nonoperating Expense	<u>(10,387)</u>	<u>(1,041,498)</u>	<u>(57,382)</u>	<u>(9,771)</u>
Net Nonoperating Expenses	<u>21,302</u>	<u>(4,070,511)</u>	<u>(916,678)</u>	<u>(64,152)</u>
Income Before Other Revenues Expenses, Gains, or Losses	1,192,822	3,897,867	4,665,974	2,340,842
Other Revenue, Expenses, Gains, or Losses	<u>640,188</u>	<u>(1,206,709)</u>	<u>(328,837)</u>	<u>(719,882)</u>
Increase in Net Assets	1,833,010	2,691,158	4,337,137	1,620,960
Net Assets, Beginning of Year	<u>3,172,341</u>	<u>5,134,557</u>	<u>25,649,699</u>	<u>6,903,340</u>
Net Assets, End of Year	<u>\$ 5,005,351</u>	<u>\$ 7,825,715</u>	<u>\$ 29,986,836</u>	<u>\$ 8,524,300</u>

Condensed Statement of Cash Flows

	Bookstore Capital Improvement Debt	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt	Health Service Facility Capital Improvement Debt
Net Cash Provided (Used) by:				
Operating Activities	\$ 1,336,830	\$ 11,338,835	\$ 7,397,053	\$ 2,543,669
Noncapital Financing Activities	213,378	(2,638,979)	(576,253)	(796,367)
Capital and Related Financing Activities	(283,160)	(8,981,764)	(16,438,375)	(840,903)
Investing Activities	<u>(981,797)</u>	<u>29,783</u>	<u>9,774,313</u>	<u>(791,395)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	285,251	(252,125)	156,738	115,004
Cash and Cash Equivalents, Beginning of Year	<u>421,031</u>	<u>2,751,177</u>	<u>2,833,651</u>	<u>1,110,704</u>
Cash and Cash Equivalents, End of Year	<u>\$ 706,282</u>	<u>\$ 2,499,052</u>	<u>\$ 2,990,389</u>	<u>\$ 1,225,708</u>

14. COMPONENT UNITS

The University has five discretely presented component units as discussed in note 1. These component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is from the most recently available audited financial statements for the component units:

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

	University of Central Florida Foundation, Inc.	University of Central Florida Research Foundation, Inc.	UCF Athletics Association, Inc.	UCF Convocation Corporation	Golden Knights Corporation	Total
Condensed Statement of Net Assets						
Assets:						
Current Assets	\$ 25,222,080	\$ 7,200,742	\$ 4,324,367	\$ 30,464,638	\$ 9,508,664	\$ 76,720,491
Capital Assets, Net	74,579,009	12,411,750	16,863,831	185,767,292	53,186,324	342,808,206
Other Noncurrent Assets	146,146,798	418,502	137,110	9,051,352	1,684,691	157,438,453
Total Assets	245,947,887	20,030,994	21,325,308	225,283,282	64,379,679	576,967,150
Liabilities:						
Current Liabilities	5,788,340	4,663,087	11,293,537	10,573,198	3,184,400	35,502,562
Noncurrent Liabilities	34,155,928		10,913,097	227,865,811	56,670,143	329,604,979
Total Liabilities	39,944,268	4,663,087	22,206,634	238,439,009	59,854,543	365,107,541
Net Assets:						
Invested in Capital Assets, Net of Related Debt	43,204,001	12,411,750	9,476,240	(50,022,022)	(5,183,273)	9,886,696
Restricted	147,633,215	637,163		23,067,095	7,802,155	179,139,628
Unrestricted	15,166,403	2,318,994	(10,357,566)	13,799,200	1,906,254	22,833,285
Total Net Assets	\$ 206,003,619	\$ 15,367,907	\$ (881,326)	\$ (13,155,727)	\$ 4,525,136	\$ 211,859,609
Condensed Statement of Revenues, Expenses, and Changes in Net Assets						
Operating Revenues	\$ 47,569,683	\$ 5,408,146	\$ 37,521,174	\$ 29,972,688	\$ 3,151,854	\$ 123,623,545
Operating Expenses	(33,942,698)	(5,708,091)	(35,135,044)	(20,078,692)	(2,686,376)	(97,550,901)
Operating Income (Loss)	13,626,985	(299,945)	2,386,130	9,893,996	465,478	26,072,644
Net Nonoperating Revenues (Expenses)	4,132,246	17,142	(2,604,383)	(9,073,233)	(516,628)	(8,044,856)
Other Revenues, Expenses, Gains, and Losses	4,041,305					4,041,305
Increase (Decrease) in Net Assets	21,800,536	(282,803)	(218,253)	820,763	(51,150)	22,069,093
Net Assets, Beginning of Year	184,203,083	14,836,724	(663,073)	(13,976,490)	4,576,286	188,976,530
Adjustment to Beginning Net Assets (1)		813,986				813,986
Net Assets, Beginning of Year, as Restated	184,203,083	15,650,710	(663,073)	(13,976,490)	4,576,286	189,790,516
Net Assets, End of Year	\$ 206,003,619	\$ 15,367,907	\$ (881,326)	\$ (13,155,727)	\$ 4,525,136	\$ 211,859,609

Note: (1) The Research Foundation recorded a prior period adjustment to correct the recording of contribution income, both temporarily restricted and unrestricted, as income in the period received, and to record the release of temporary restrictions in the period the restrictions were accomplished.

15. SUBSEQUENT EVENTS

On December 29, 2011, the University issued \$11,005,000 of University of Central Florida Parking Facility Revenue Refunding Bonds, Series 2011A. The proceeds are to be used to refund a portion of the Parking Facility Revenue Bonds, Series 1997, 1999, and 2001.

On January 17, 2012, the University Board of Trustees approved the purchase of 25 acres of land adjacent to the UCF Health Sciences Campus at Lake Nona for \$15,137,000. The land will be used to expand the health sciences campus and to provide space to construct additional research, teaching, and clinical care facilities.

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

On November 10, 2010, the University Board of Trustees approved a financing plan for an on-campus housing expansion and improvements to existing housing units. On February 23, 2012, the Division of Bond Finance of the State Board of Administration is expected to issue \$66,640,000 State of Florida, Board of Governors, University of Central Florida Dormitory Revenue Bonds, Series 2012A. The proceeds of the bonds will be used to refund a portion of the outstanding principal amount of the State of Florida, Board of Regents, University of Central Florida Housing Facility Revenue Bonds Series 2000 and to construct and improve student housing located on the campus of the University. The bonds are secured by the net revenues of the housing facility.

**UNIVERSITY OF CENTRAL FLORIDA
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 52,106,000	\$52,106,000	0%	\$255,646,117	20.4%
7/1/2009	\$	\$ 83,256,000	\$83,256,000	0%	\$255,712,129	32.6%

Note: (1) The entry-age actuarial cost method was used to calculate the actuarial accrued liability.

**UNIVERSITY OF CENTRAL FLORIDA
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2009, unfunded actuarial liability of \$83,256,000 was significantly higher than the July 1, 2007, liability of \$52,106,000. The primary factors that caused the change were: increases in the number of employees and retirees included in the valuation, changes in the long-term trend model for future retiree healthcare benefits, changes in the rates of decrement and mortality and the amortization factor, and changes in the coverage election assumption from 35 percent to 50 percent to more closely reflect experience over the last two fiscal years.



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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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 Central 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, 2011, which collectively comprise the University's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to 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. Other auditors audited the financial statements of the blended and aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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 University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to University management in our operational audit report No. 2012-104.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 13, 2012