

UNIVERSITY OF CENTRAL FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2014



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2013-14 fiscal year are listed below:

Olga M. Calvet, Vice Chair to 7-24-13, Acting Chair
from 7-25-13 to 9-25-13, Chair from 9-26-13
John R. Sprouls, Vice Chair from 9-26-13 (1)
Michael J. Grindstaff, to 7-24-13, Chair (2)
James Atchison
Weston Bayes from 5-8-14 (3)
Clarence H. Brown III, M.D. from 7-25-13
Richard T. Crotty
Alan S. Florez
Robert A. Garvy
Ray Gilley
Marcos R. Marchena
Alex Martins from 11-21-13 (4)
Dr. Reid Oetjen (5)
Beverly J. Seay
Melissa Westbrook to 5-7-14 (3)

Dr. John C. Hitt, President

- Notes: (1) Vice Chair position vacant from
July 25, 2013, to September 25, 2013.
(2) Board member served beyond the end of
term, January 6, 2013.
(3) Student body president.
(4) Position was vacant from July 1, 2013,
to November 20, 2013.
(5) Faculty Senate Chair.

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 James H. Cole, 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) 412-2869.

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) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

UNIVERSITY OF CENTRAL FLORIDA
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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:

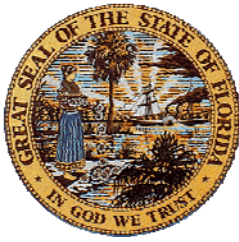
- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- 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, 2014. 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. 2015-086.

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

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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

INDEPENDENT AUDITOR'S REPORT

Report on the 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, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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. The financial statements for the blended component units represent 0.7 percent, 4.5 percent, and 0.3 percent, respectively, of the assets, liabilities, and net position, reported for the University of Central Florida. The financial statements of the aggregate discretely presented component units 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 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 solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating

the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** and **SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN**, 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.

Other Reporting Required by Government Auditing Standards

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* in considering the University of Central Florida's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 24, 2015

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, 2014, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2014, and June 30, 2013.

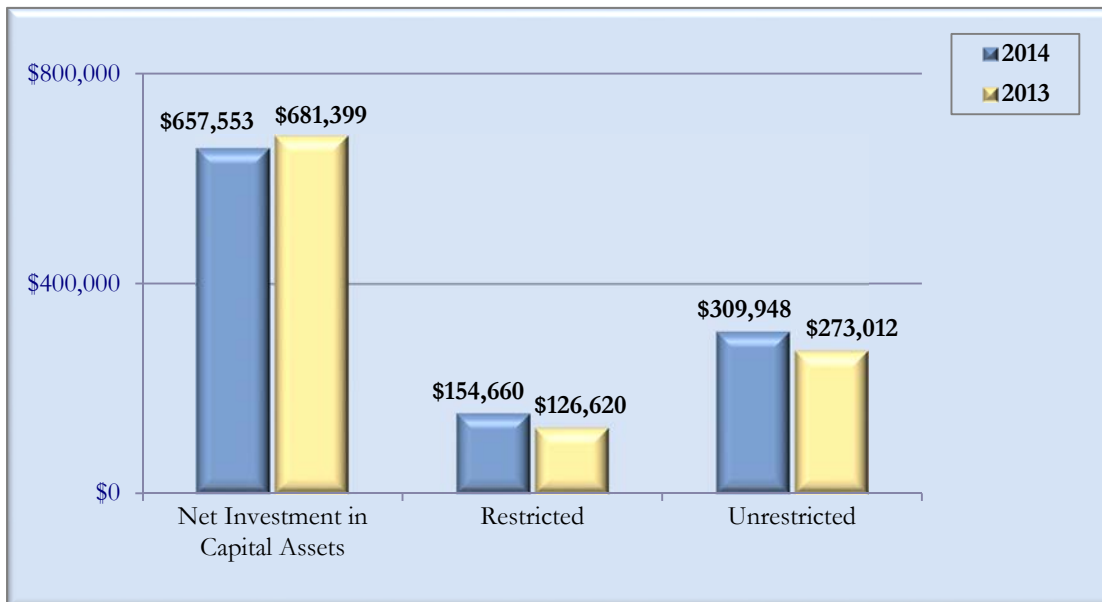
FINANCIAL HIGHLIGHTS

The University’s assets totaled \$1.5 billion at June 30, 2014. This balance reflects a \$44.1 million, or 3 percent, increase as compared to June 30, 2013, resulting from an increase in investments. Deferred outflows of resources at June 30, 2014 totaled \$11.2 million and decreased slightly from prior year by \$0.4 million. Liabilities increased by \$2.6 million, or 0.7 percent, totaling \$381.4 million at June 30, 2014, as compared to \$378.8 million at June 30, 2013. As a result, the University’s net position increased by \$41.1 million, resulting in a year-end balance of \$1.1 billion.

The University’s operating revenues totaled \$443.8 million for the 2013-14 fiscal year, representing a 1.9 percent increase over the 2012-13 fiscal year. Operating expenses totaled \$821.7 million for the 2013-14 fiscal year, representing an increase of 6 percent over the 2012-13 fiscal year due mainly to an increase in compensation and employee benefits.

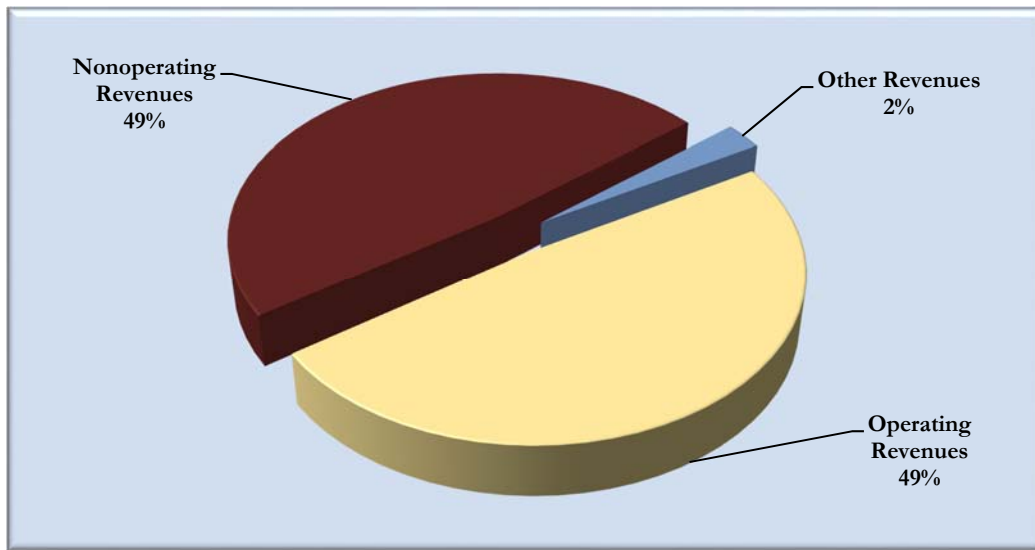
Net position represents the residual interest in the University’s assets and deferred outflows of resources after deducting liabilities. The University’s comparative total net position by category for the fiscal years ended June 30, 2014, and June 30, 2013, is shown in the following graph:

**Net Position
(In Thousands)**



The following chart provides a graphical presentation of University revenues by category for the 2013-14 fiscal year:

Total Revenues



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University’s financial report includes three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. These component units include:

- Blended Component Units
 - UCF Finance Corporation
 - University of Central Florida College of Medicine Self-Insurance Program
- Discretely Presented Component Units
 - University of Central Florida Foundation, Inc.
 - University of Central Florida Research Foundation, Inc.
 - UCF Athletics Association, Inc.
 - UCF Convocation Corporation
 - Golden Knights Corporation
 - Central Florida Clinical Practice Organization, Inc.

Information regarding these component units, including summaries of the blended and discretely presented component units’ 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.

THE STATEMENT OF NET POSITION

The statement of net position reflects the assets, deferred outflows of resources, and liabilities of the University, using the accrual basis of accounting, and presents the financial position of the University at a specified time. Assets, plus deferred outflows of resources, less liabilities, equals net position, which is one indicator of the University's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the University's financial condition.

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

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

	2014	2013
Assets		
Current Assets	\$ 521,440	\$ 468,619
Capital Assets, Net	857,163	869,179
Other Noncurrent Assets	113,710	110,416
Total Assets	1,492,313	1,448,214
Deferred Outflows of Resources	11,219	11,583
Liabilities		
Current Liabilities	77,557	79,606
Noncurrent Liabilities	303,814	299,160
Total Liabilities	381,371	378,766
Net Position		
Net Investment in Capital Assets	657,553	681,399
Restricted	154,660	126,620
Unrestricted	309,948	273,012
Total Net Position	\$ 1,122,161	\$ 1,081,031

Total assets as of June 30, 2014, increased by \$44.1 million or 3 percent. Current assets increased \$52.8 million primarily due to an increase in investments of \$54 million including unrealized gains of \$11 million. Deferred outflows of resources consist of accumulated decreases in fair value of hedging derivatives related to an interest rate swap agreement, used to manage the risk of rising interest rates on variable rate-based debt. Total liabilities remained consistent with prior year.

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

The statement of revenues, expenses, and changes in net position 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 2013-14 and 2012-13 fiscal years:

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years
(In Thousands)**

	2013-14	2012-13
Operating Revenues	\$ 443,779	\$ 435,463
Less, Operating Expenses	821,707	775,254
Operating Loss	(377,928)	(339,791)
Net Nonoperating Revenues	395,778	318,630
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	17,850	(21,161)
Other Revenues	23,280	10,292
Net Increase (Decrease) In Net Position	41,130	(10,869)
Net Position, Beginning of Year	1,081,031	1,091,900
Net Position, End of Year	\$ 1,122,161	\$ 1,081,031

Operating Revenues

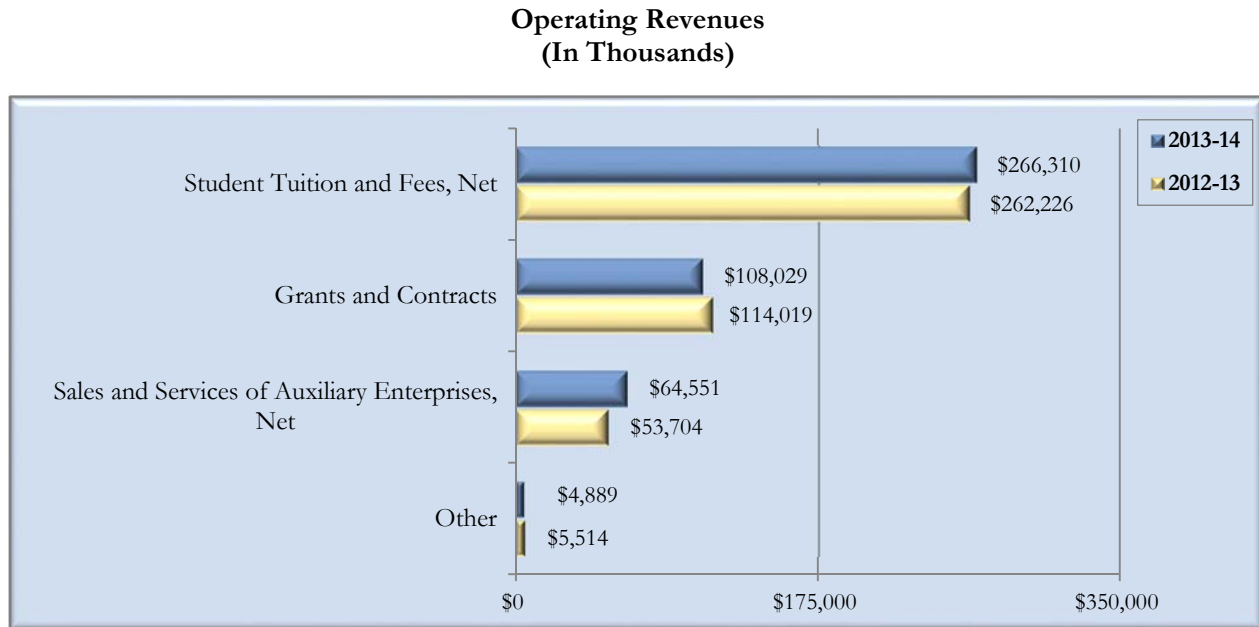
GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives up or receives something of equal or similar value.

The following summarizes the operating revenues by source that were used to fund operating activities for the 2013-14 and 2012-13 fiscal years:

**Operating Revenues
(In Thousands)**

	2013-14	2012-13
Student Tuition and Fees, Net	\$ 266,310	\$ 262,226
Grants and Contracts	108,029	114,019
Sales and Services of Auxiliary Enterprises, Net	64,551	53,704
Other	4,889	5,514
Total Operating Revenues	\$ 443,779	\$ 435,463

The following chart presents the University’s operating revenues for the 2013-14 and 2012-13 fiscal years:



Total operating revenues increased \$8.3 million or 1.9 percent. Sales and services of auxiliary enterprises, net, increased \$10.8 million, or 20.2 percent. The increase was due primarily to an increase in housing and utilities revenue.

Operating Expenses

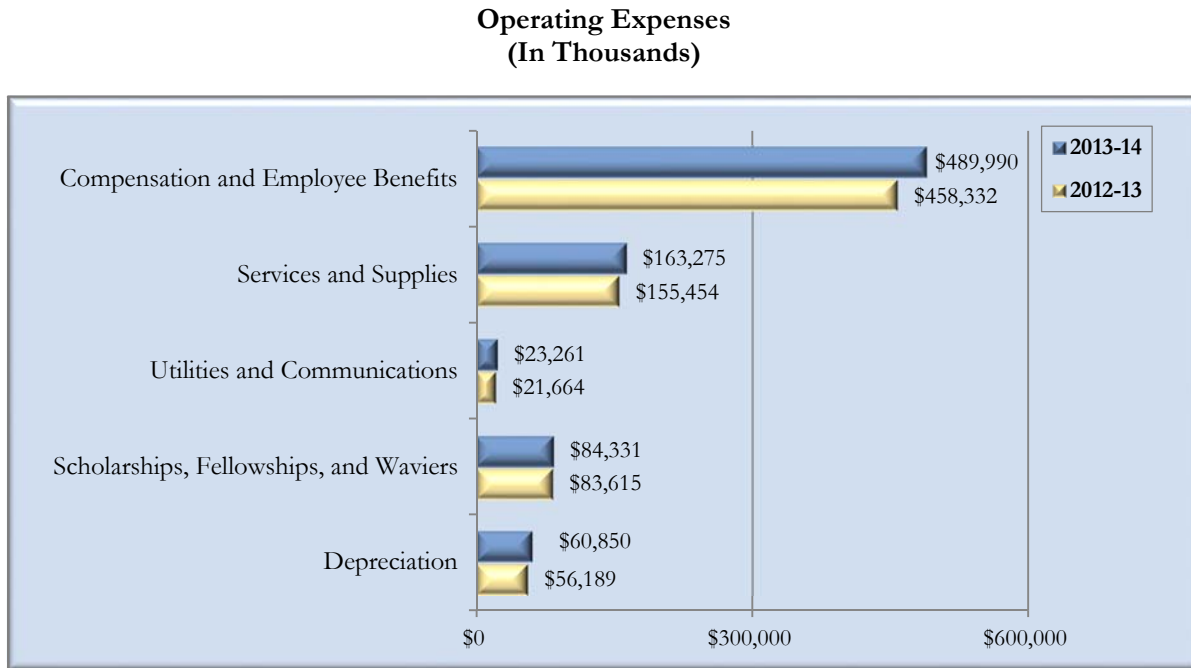
Expenses are categorized as operating or nonoperating. The majority of the University’s expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University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

The following summarizes the operating expenses by natural classifications for the 2013-14 and 2012-13 fiscal years:

**Operating Expenses
(In Thousands)**

	2013-14	2012-13
Compensation and Employee Benefits	\$ 489,990	\$ 458,332
Services and Supplies	163,275	155,454
Utilities and Communications	23,261	21,664
Scholarships, Fellowships, and Waivers	84,331	83,615
Depreciation	60,850	56,189
Total Operating Expenses	\$ 821,707	\$ 775,254

The following chart presents the University’s operating expenses for the 2013-14 and 2012-13 fiscal years:



Operating expenses totaled \$821.7 million for the 2013-14 fiscal year. This represents a \$46.5 million or 6 percent increase over the 2012-13 fiscal year. The increase in compensation and employee benefits of \$31.7 million, or 6.9 percent, was primarily due to increases in salaries of \$14.6 million, healthcare and retirement contributions of \$11.8 million, and postemployment benefits and compensated absences expenses of \$4.2 million. The increase in services and supplies of \$7.8 million, or 5 percent, was primarily due to an increase in capital assets purchased at less than the University’s capitalization threshold.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, 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 2013-14 and 2012-13 fiscal years:

**Nonoperating Revenues (Expenses)
(In Thousands)**

	2013-14	2012-13
State Noncapital Appropriations	\$ 273,554	\$ 195,589
Federal and State Student Financial Aid	137,019	135,539
Investment Income	21,861	10,142
Other Nonoperating Revenues	10,486	9,413
Loss on Disposal of Capital Assets	(5,643)	(489)
Interest on Capital Asset-Related Debt	(7,648)	(8,402)
Other Nonoperating Expenses	(33,851)	(23,162)
Net Nonoperating Revenues	\$ 395,778	\$ 318,630

Net nonoperating revenues increased by \$77.1 million, or 24.2 percent, primarily due to an increase in State noncapital appropriations of \$78 million. The 2013-14 fiscal year budget adopted by the Florida Legislature restored a \$52 million non-recurring budget reduction from the prior fiscal year. In addition, appropriations of \$16.3 million were received for funding of employee compensation and benefits. The loss on disposal of capital assets was primarily due to assets purchased with Federal grant funds, which were transferred to other agencies. Other nonoperating expenses primarily consisted of expenses incurred by the athletics department.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2013-14 and 2012-13 fiscal years:

Other Revenues, Expenses, Gains, or Losses (In Thousands)		
	<u>2013-14</u>	<u>2012-13</u>
State Capital Appropriations	\$ 21,514	\$ 8,410
Capital Grants, Contracts, Donations, and Fees	1,766	1,882
Total	\$ 23,280	\$ 10,292

Other revenues, expenses, gains, or losses totaled \$23.3 million for the 2013-14 fiscal year. This represents a \$13 million increase compared to the 2012-13 fiscal year due to an increase in State capital appropriations.

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 2013-14 and 2012-13 fiscal years:

Condensed Statement of Cash Flows (In Thousands)		
	<u>2013-14</u>	<u>2012-13</u>
Cash Provided (Used) by:		
Operating Activities	\$ (301,469)	\$ (271,785)
Noncapital Financing Activities	396,474	320,040
Capital and Related Financing Activities	(59,324)	(70,537)
Investing Activities	(37,167)	(29,364)
Net Decrease in Cash and Cash Equivalents	(1,486)	(51,646)
Cash and Cash Equivalents, Beginning of Year	56,410	108,056
Cash and Cash Equivalents, End of Year	\$ 54,924	\$ 56,410

Cash and cash equivalents decreased \$1.5 million. Cash used by operating activities increased by \$29.7 million compared to fiscal year 2012-13 due primarily to a \$26.1 million increase in cash payments to employees for compensation. Cash inflows from noncapital financing activities increased by \$76.4 million primarily due to increases in State noncapital appropriations. Cash used by capital and related financing activities decreased by \$11.2 million primarily due to a decrease of \$18.6 million in purchases and construction of capital assets, offset by an \$8.2 million decrease in bond proceeds.

Major sources of cash flows came from State noncapital appropriations (\$273.6 million), tuition and fees, net (\$264.7 million), Federal and State student financial aid (\$136.8 million), and grants and contracts (\$106 million). Major uses of cash flows were for payments made to employees (\$471.6 million), payments to suppliers for goods and services (\$188.3 million), payments to students for scholarships and fellowships (\$84.3 million), and purchase or construction of capital assets (\$63 million).

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2014, the University had \$1.5 billion in capital assets, less accumulated depreciation of \$627.6 million, for net capital assets of \$857.2 million. Depreciation charges for the current fiscal year totaled \$60.8 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)

	2014	2013
Land	\$ 24,822	\$ 24,822
Construction in Progress	9,296	55,945
Buildings	722,711	677,064
Infrastructure and Other Improvements	32,286	34,094
Furniture and Equipment	42,473	47,414
Library Resources	20,602	23,300
Leasehold Improvements	3,981	5,675
Works of Art and Historical Treasures	992	865
Capital Assets, Net	\$ 857,163	\$ 869,179

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, 2014, were incurred on the following projects, which were completed during the year: Academic Villages II, Classroom Building II, and Parking Garage VII. The balance committed for construction commitments at June 30, 2014, totaled \$3.7 million. Additional information about the University's construction commitments is presented in the notes to financial statements.

DEBT ADMINISTRATION

As of June 30, 2014, the University had \$207.9 million in outstanding capital improvement debt payable, bonds payable, and installment purchases payable, representing a decrease of \$9.6 million, or 4.4 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)**

	2014	2013
Capital Improvement Debt	\$ 151,541	\$ 158,975
Bonds Payable	55,380	56,620
Installment Purchase Payable	950	1,900
Total	\$ 207,871	\$ 217,495

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 University’s economic condition is closely tied to that of the State of Florida. The budget adopted by the Florida Legislature for the 2014-15 fiscal year provided a 7 percent increase to State universities, including \$100 million in new recurring performance-based funding. The University of Central Florida received \$16.7 million of this new performance-based funding in addition to \$14.1 million of recurring funds that were reclassified to performance-based funding. Economic recovery and demand for State resources will continue to influence appropriations to higher education. The University manages these influences through the continued conservation and efficient use of resources and entrepreneurial efforts by academic, administrative, and auxiliary departments.

In addition to State funding, the University relies on other revenue streams to maintain the open access to and high quality of its academic programs. For the 2013-14 fiscal year, gross tuition and fee revenue increased by 1.8 percent. Enrollment remained constant with a student count of approximately 59,700. The University continues to invest in recruitment, retention, and academic advising initiatives to manage enrollment and support students’ success.

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, Associate Vice President for Finance and 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 POSITION
June 30, 2014**

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 41,025,997	\$ 20,097,589
Restricted Cash and Cash Equivalents	3,980,631	15,408,054
Investments	388,718,126	2,681,739
Accounts Receivable, Net	45,734,063	7,193,815
Loans and Notes Receivable, Net	974,692	
Due from State	33,547,994	
Due from Component Units	1,226,700	781,493
Due from University		8,062,960
Inventories	1,990,524	
Other Current Assets	4,241,460	1,560,424
Total Current Assets	521,440,187	55,786,074
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	9,917,840	22,622,928
Restricted Investments	89,604,933	179,861,010
Loans and Notes Receivable, Net	3,654,227	6,493,213
Depreciable Capital Assets, Net	822,827,488	256,820,684
Nondepreciable Capital Assets	34,335,846	54,660,402
Due from Component Units	9,938,866	
Other Noncurrent Assets	593,724	4,795,899
Total Noncurrent Assets	970,872,924	525,254,136
Total Assets	1,492,313,111	581,040,210
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated Decrease in Fair Value of Hedging Derivatives	11,219,057	
LIABILITIES		
Current Liabilities:		
Accounts Payable	14,979,511	5,529,313
Construction Contracts Payable	7,826,827	
Salaries and Wages Payable	11,866,487	
Deposits Payable	6,748,137	
Due to Component Units	8,062,960	781,493
Due to University		1,226,700
Unearned Revenue	14,211,216	9,336,880
Other Current Liabilities	304,640	8,784,394
Long-Term Liabilities - Current Portion:		
Capital Improvement Debt Payable	8,280,000	
Bonds Payable	1,295,000	
Certificates of Participation Payable		6,170,000
Loans and Notes Payable		3,031,117
Installment Purchase Payable	950,000	
Compensated Absences Payable	3,031,768	95,137
Total Current Liabilities	77,556,546	34,955,034

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2014**

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Capital Improvement Debt Payable	\$ 143,260,727	\$
Bonds Payable	54,085,000	
Certificates of Participation Payable		250,315,650
Loans and Notes Payable		38,584,056
Compensated Absences Payable	40,279,209	724,610
Other Postemployment Benefits Payable	48,177,000	
Unearned Revenues		1,786,855
Due to University		9,938,866
Interest Rate Swap	11,219,057	
Other Noncurrent Liabilities	6,793,332	87,938
	303,814,325	301,437,975
Total Noncurrent Liabilities		
	381,370,871	336,393,009
NET POSITION		
Net Investment in Capital Assets	657,553,436	13,460,911
Restricted for Nonexpendable:		
Endowment		119,093,792
Restricted for Expendable:		
Debt Service	1,421,981	
Loans	3,803,291	
Capital Projects	113,377,629	
Other	36,056,951	96,314,921
Unrestricted	309,948,009	15,777,577
	\$ 1,122,161,297	244,647,201

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 POSITION
For the Fiscal Year Ended June 30, 2014

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$104,139,585 (Pledged for Capital Improvement Debt: \$14,126,908 for Student Health and \$11,702,471 for Parking)	\$ 266,310,129	\$
Federal Grants and Contracts	82,083,832	
State and Local Grants and Contracts	6,813,787	
Nongovernmental Grants and Contracts	19,131,149	
Sales and Services of Auxiliary Enterprises, Net (Pledged for Capital Improvement Debt: \$1,675,257 for Bookstore; \$28,307,424 for Housing; and \$6,013,053 for Parking)	64,551,298	
Gifts and Donations		12,353,587
Interest on Loans and Notes Receivable	105,144	
Other Operating Revenues (Pledged for Capital Improvement Debt: \$394,205 for Housing and \$995,305 for Parking)	4,784,220	124,547,659
	443,779,559	136,901,246
Total Operating Revenues		
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	489,989,986	14,247,516
Services and Supplies	163,275,412	81,171,871
Utilities and Communications	23,260,801	
Scholarships, Fellowships, and Waivers	84,331,278	
Depreciation	60,849,674	10,464,481
	821,707,151	105,883,868
Total Operating Expenses		
Operating Income (Loss)		
	(377,927,592)	31,017,378
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	273,554,411	
Federal and State Student Financial Aid	137,019,306	
Investment Income	21,860,571	756,945
Other Nonoperating Revenues	10,486,509	11,759,044
Loss on Disposal of Capital Assets	(5,642,996)	(52,033)
Interest on Capital Asset-Related Debt	(7,648,203)	(12,579,596)
Other Nonoperating Expenses	(33,851,905)	(10,323,017)
	395,777,693	(10,438,657)
Net Nonoperating Revenues (Expenses)		
Income Before Other Revenues, Expenses, Gains, or Losses		
	17,850,101	20,578,721
State Capital Appropriations	21,514,232	
Capital Grants, Contracts, Donations, and Fees	1,766,420	
Additions to Permanent Endowments		2,509,861
	41,130,753	23,088,582
Increase in Net Position		
Net Position, Beginning of Year	1,081,030,544	221,558,619
	\$ 1,122,161,297	\$ 244,647,201
Net Position, End of Year		

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, 2014

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 264,657,171
Grants and Contracts	106,028,565
Sales and Services of Auxiliary Enterprises	67,012,968
Interest on Loans and Notes Receivable	104,140
Payments to Employees	(471,596,205)
Payments to Suppliers for Goods and Services	(188,343,018)
Payments to Students for Scholarships and Fellowships	(84,331,278)
Collection on Loans to Students	792,315
Loans Issued to Students	(557,138)
Other Operating Receipts	4,763,086
	(301,469,394)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	273,554,411
Federal and State Student Financial Aid	136,842,658
Federal Direct Loan Program Receipts	246,168,149
Federal Direct Loan Program Disbursements	(246,168,149)
Net Change in Funds Held for Others	2,495,500
Other Nonoperating Disbursements	(16,418,183)
	396,474,386
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	23,649,584
Capital Grants, Contracts, and Donations	1,050,059
Capital Subsidies and Transfers	(4,050,126)
Other Receipts for Capital Projects	299,404
Purchase or Construction of Capital Assets	(63,000,948)
Principal Paid on Capital Debt	(9,350,000)
Interest Paid on Capital Debt	(7,921,435)
	(59,323,462)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	705,205,140
Purchase of Investments	(748,774,883)
Investment Income	6,402,375
	(37,167,368)
Net Cash Used by Investing Activities	(37,167,368)
Net Decrease in Cash and Cash Equivalents	(1,485,838)
Cash and Cash Equivalents, Beginning of Year	56,410,306
	54,924,468
Cash and Cash Equivalents, End of Year	\$ 54,924,468

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2014**

	<u>University</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (377,927,592)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	60,849,674
Change in Assets and Liabilities:	
Receivables, Net	(2,687,037)
Inventories	475,020
Other Assets	(1,139,700)
Accounts Payable	2,533,267
Salaries and Wages Payable	2,275,177
Deposits Payable	(145,956)
Unearned Revenue	1,944,159
Other Liabilities	(3,764,250)
Compensated Absences Payable	3,432,844
Other Postemployment Benefits Payable	12,685,000
NET CASH USED BY OPERATING ACTIVITIES	\$ (301,469,394)
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES	
Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 15,191,263
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (5,642,996)

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, 2014**

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. 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 Units. Based on the application of the criteria for determining component units, the UCF Finance Corporation (Corporation) and the University of Central Florida College of Medicine Self-Insurance Program (Program) are included within the University's reporting entity as blended component units, and are therefore reported as if they are part of the University. The Corporation's purpose is to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. The Program's purpose is to provide comprehensive general liability and professional liability coverage for the University's Trustees and students for claims and actions arising from clinical activities of the College of Medicine, College of Nursing, UCF Health Services, College of Health and Public Affairs, and the Central Florida Clinical Practice Organization, Inc., faculty, staff, and resident physicians. Condensed financial statements for the University's blended component units are shown in a subsequent note.

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) and the Central Florida Clinical Practice Organization, Inc. (an affiliated organization), are included within the University reporting entity as discretely presented component units. These legally separate, not-for-profit, corporations are organized and operated to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services and are governed by separate boards. The Statute authorizes these organizations to receive, hold, invest,

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- 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.
- 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.
- UCF Athletics Association, Inc., was organized to promote intercollegiate athletics to benefit the University and surrounding communities.
- 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.
- Golden Knights Corporation was created to finance, build, and administer an on-campus football stadium.
- Central Florida Clinical Practice Organization, Inc., is an affiliated organization component unit of the University and was formed for the purpose of supporting the medical education program and clinical faculty within the College of Medicine.

An annual audit of each organization's financial statements is conducted by independent certified public accountants. The annual reports are 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 Associate Vice President for Finance and 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 Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows
 - Notes to Financial Statements
- Other Required Supplementary Information

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets, deferred outflows of resources, and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The University follows GASB standards of accounting and financial reporting.

The University's blended and discretely presented component units use the economic resources measurement focus and 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.

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 position 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 position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference 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*.

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Cash and Cash Equivalents - University. Cash and cash equivalents consist of cash on hand and cash in demand accounts, money market funds, and investments with original maturities of three months or less. University 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 \$38,817,004 in money market funds and short-term investments. The money market funds and investments are permissible under the current investment policy; the primary portion of these investments are held in Rule 2a-7 mutual funds and securities rated AAA (or its equivalent) by a nationally recognized statistical rating organization. The Corporation, a blended component unit, holds \$5,919,393 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 to purchase or construct capital or other restricted assets, are classified as restricted.

Cash and Cash Equivalents – Discretely Presented Component Units. Cash and cash equivalents for the University’s discretely presented component units are reported as follows:

Component Unit	Cash in Bank	Money Market Funds	Short-Term Guaranteed Investment Contracts	Total
The University of Central Florida Foundation, Inc.	\$ 9,631,653	\$ 6,728,926	\$	\$ 16,360,579
The University of Central Florida Research Foundation, Inc.	1,534,603	3,678,161		5,212,764
The UCF Athletics Association, Inc.	2,593,441			2,593,441
The UCF Convocation Corporation		14,252,978	10,054,831	24,307,809
The Golden Knights Corporation		6,096,017	3,031,485	9,127,502
The Central Florida Clinical Practice Organization, Inc.	526,476			526,476
Total Component Units	\$ 14,286,173	\$ 30,756,082	\$ 13,086,316	\$ 58,128,571

The University holds certain cash balances for various discretely presented component units. Cash amounts held for University of Central Florida Research Foundation, Inc., UCF Convocation Corporation, and Golden Knights Corporation were \$2,699,789, \$4,204,516, and \$744,508, respectively.

UCF Convocation Corporation and Golden Knights Corporation. These component units follow the investment policy of the University for managing credit risks. Money market funds are uninsured and collateralized by securities held by the institution, not in the Corporations’ names. The money market funds invest in diversified portfolios of high-quality, dollar-denominated short-term debt securities. Short-term guaranteed investment contracts are investment vehicles that guarantee a return on principal invested in the account over the life of the investment. For the year ended June 30, 2014, the Corporations had benefit-responsive investment contracts with an insurance company that maintains the funds in guaranteed interest accounts. The accounts are credited with earnings on the underlying investments and are subject to plan

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

withdrawals. The contracts are included in the financial statements at fair value as reported to the Corporations by the insurance company. Fair value represents contributions made under the contract, plus earnings, less plan withdrawals. There are no reserves against fair values for credit risk of the contract issuer or otherwise. For 2013-14 fiscal year, the average yield and crediting interest rates were 5 percent for the UCF Convocation Corporation and 5 percent for the Golden Knights Corporation, based on maturities through June 30, 2015, and June 30, 2014, respectively. These assets are segregated and subject to withdrawal by the authorized trustee. The guaranteed investment contracts were purchased by the corporations to invest the unused proceeds received from the issuance of debt.

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 Corporations' investments in securities must provide sufficient liquidity to pay obligations as they come due.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy limits fixed income exposure to investment grade assets and provides credit quality guidelines applicable to the investment objective. The investment policies provide information on asset classes, target allocations, and ranges of acceptable investment categories.

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

Other Component Units

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the component unit will not be able to recover deposits.

- **University of Central Florida Foundation, Inc.** – Cash deposits consist of non-interest-bearing demand deposits, money market, and cash deposits swept on an overnight basis from operating bank accounts into interest-bearing money market accounts with maturity dates of less than 90 days. At June 30, 2014, approximately \$15,561,416 in cash deposits were not insured by Federal deposit insurance and were not collateralized.
- **University of Central Florida Research Foundation, Inc.** – At June 30, 2014, the Research Foundation had deposits in banking institutions. A portion of the deposits, totaling \$73,848, were in excess of the Federal deposit insurance limit as of June 30, 2014.

The Research Foundation maintains a repurchase sweep account with a local bank. The target balance in the main operating account is "swept" overnight by the bank and is collateralized by mortgage-backed securities issued by the Federal National Mortgage Association and/or the Federal Home Loan Mortgage Corporation, which have been temporarily sold to the Research Foundation under the terms of the repurchase agreement. The balance in the repurchase account as of June 30, 2014, was \$1,203,995. This

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

amount is not included in the deposit amount uninsured by the Federal Deposit Insurance Corporation (FDIC).

- **UCF Athletics Association, Inc.** – The Association does not have a deposit policy for custodial credit risk, although all demand deposits with banks are insured up to the FDIC limits. As of June 30, 2014, \$2,829,312 of the Association’s bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

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 computer software 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 \$4 million for intangible assets, which includes computer software, and \$5,000 for tangible personal property. New buildings and improvements have a \$100,000 capitalization threshold. 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 – the lesser of the remaining lease term, or the estimated useful life of the improvement
- Works of Art and Historical Treasures – 5 to 15 years
- Computer Software and Other Capital Assets – 5 to 10 years

Noncurrent Liabilities. Noncurrent liabilities include principal amount of capital improvement debt payable, bonds payable, installment purchases payable, compensated absences payable, other postemployment benefits payable, interest rate swap, 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. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method.

2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), 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 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

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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, 2014, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
External Investment Pools:	
State Treasury Special Purpose Investment Account	\$ 272,979,393
SBA Florida PRIME	1,437
SBA Fund B Surplus Funds Trust Fund	20
SBA Debt Service Accounts	1,402,443
Certificates of Deposit	245,306
United States Government and Federally-Guaranteed Obligations	49,516,070
Federal Agency Obligations	23,017,776
Bonds and Notes	55,908,991
Mutual Funds:	
Equities	66,542,835
Bonds	8,708,788
Total University Investments	\$ 478,323,059

Investments held by the University’s component units at June 30, 2014, are reported at fair value, as follows:

<u>Investment Type</u>	<u>University of Central Florida Foundation, Inc.</u>	<u>University of Central Florida Research Foundation, Inc.</u>	<u>Total</u>
Mutual Funds - Equities	\$ 100,968,488	\$ 62,971	\$ 101,031,459
Mutual Funds - Bonds	49,523,926		49,523,926
Hedge Funds	19,419,888		19,419,888
Private Equity Funds	91,052		91,052
Real Estate Investment Trusts - REITS	70,160		70,160
Real Assets	7,862,562		7,862,562
Exchanged Traded Funds	1,403,211		1,403,211
Equity Securities	2,749,425	391,066	3,140,491
Total Component Unit Investments	\$ 182,088,712	\$ 454,037	\$ 182,542,749

External Investment Pools – State Treasury Special Purpose Investment Account

The University reported investments at fair value totaling \$272,979,393 at June 30, 2014, 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 A+f by Standard & Poor’s, had an effective duration

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

of 2.57 years and fair value factor of 1.0074 at June 30, 2014. 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 totaling \$1,402,443 at June 30, 2014, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education 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, 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, 2014, are as follows:

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	\$ 49,516,070	\$ 10,867,851	\$ 35,538,360	\$ 3,109,859
Federal Agency Obligations	23,017,776	340,344	5,887,194	16,790,238
Bonds and Notes	55,908,991	2,508,106	41,811,220	11,589,665
Mutual Funds - Bonds	8,708,788	43,585	5,099,081	3,566,122
Total University	\$ 137,151,625	\$ 13,759,886	\$ 88,335,855	\$ 35,055,884

Component Units' Debt Investments Maturities

Investment Type	Fair Value	Investments Maturities (In Years)		
		Less Than 1	1 - 5	More Than 5
Mutual Funds - Bonds	\$ 49,523,926	\$ 5,886,703	\$ 40,037,140	\$ 3,600,083

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

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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, 2014, of the University’s and its component units’ debt instruments using Moody’s and Standard & Poor’s, nationally recognized rating agencies:

University Debt Investments Quality Ratings

Investment Type	Fair Value	AAA	AA	A	Less Than A
Federal Agency Obligations	\$ 23,017,776	\$ 23,017,776	\$	\$	\$
Bonds and Notes	55,908,991	19,454,641	10,587,882	24,617,273	1,249,195
Mutual Funds - Bonds	8,708,788		1,124,519	7,584,269	
Total University	\$ 87,635,555	\$ 42,472,417	\$ 11,712,401	\$ 32,201,542	\$ 1,249,195

Component Units' Debt Investments Quality Ratings

Investment Type	Fair Value	AAA	AA	A	Less Than A
Mutual Funds - Bonds	\$ 49,523,926	\$ 5,886,703	\$ 26,098,890	\$ 8,853,855	\$ 8,684,478

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University’s or its component units’ 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. Guidelines for individual sectors of the portfolio further indicate percentage limitations.

3. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for contract and grant reimbursements due from third parties, students tuition and fees, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2014, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 21,991,426
Student Tuition and Fees	20,089,250
Other	3,653,387
Total Accounts Receivable, Net	\$ 45,734,063

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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 Doubtful Receivables. Allowances for doubtful 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 \$1,667,000 and \$789,231, respectively, at June 30, 2014.

4. DUE FROM STATE

This amount consists of \$33,547,994 of Public Education Capital Outlay, Capital Improvement Fee Trust Fund, or other allocations due from the State to the University for the construction of University facilities.

5. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2014, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 24,821,959	\$	\$	\$ 24,821,959
Works of Art and Historical Treasures	218,000			218,000
Construction in Progress	55,945,203	22,583,921	69,233,237	9,295,887
Total Nondepreciable Capital Assets	\$ 80,985,162	\$ 22,583,921	\$ 69,233,237	\$ 34,335,846
Depreciable Capital Assets:				
Buildings	\$ 979,660,049	\$ 79,181,571	\$	\$ 1,058,841,620
Infrastructure and Other Improvements	54,114,303	451,154		54,565,457
Furniture and Equipment	188,720,541	18,567,987	12,204,670	195,083,858
Library Resources	112,944,125	2,225,557		115,169,682
Leasehold Improvements	17,082,282	174,619		17,256,901
Works of Art and Historical Treasures	1,410,300	255,556		1,665,856
Computer Software and Other Capital Assets	7,850,435			7,850,435
Total Depreciable Capital Assets	1,361,782,035	100,856,444	12,204,670	1,450,433,809
Less, Accumulated Depreciation:				
Buildings	302,596,641	33,534,159		336,130,800
Infrastructure and Other Improvements	20,020,427	2,259,224		22,279,651
Furniture and Equipment	141,306,902	18,135,301	6,831,776	152,610,427
Library Resources	89,643,995	4,923,400		94,567,395
Leasehold Improvements	11,406,964	1,869,335		13,276,299
Works of Art and Historical Treasures	763,059	128,255		891,314
Computer Software and Other Capital Assets	7,850,435			7,850,435
Total Accumulated Depreciation	573,588,423	60,849,674	6,831,776	627,606,321
Total Depreciable Capital Assets, Net	\$ 788,193,612	\$ 40,006,770	\$ 5,372,894	\$ 822,827,488

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6. UNEARNED REVENUE

Unearned revenue includes grant and contract prepayments, auxiliary prepayments, and student tuition and fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2014, the University reported the following amounts as unearned revenue:

<u>Description</u>	<u>Amount</u>
Grant and Contract Prepayments	\$ 6,140,051
Auxiliary Prepayments	7,136,158
Student Tuition and Fees	<u>935,007</u>
Total Unearned Revenue	<u>\$ 14,211,216</u>

7. DEFERRED OUTFLOW OF RESOURCES

One of the University's blended component units (UCF Finance Corporation) entered into an interest rate swap agreement in connection with its \$60 million bond issuance to manage the risk of rising interest rates on its variable rate-based debt. Deferred outflow of resources includes the effect of deferring accumulated decreases in fair value of a hedging derivative related to this interest rate swap agreement. The Bonds Payable section of Note 8 below includes a complete discussion of the swap agreement.

8. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2014, include capital improvement debt payable, bonds payable, installment purchase payable, compensated absences payable, other postemployment benefits payable, interest rate swap, and other noncurrent liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2014, 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	\$ 158,974,647	\$	\$ 7,433,920	\$ 151,540,727	\$ 8,280,000
Bonds Payable	56,620,000		1,240,000	55,380,000	1,295,000
Installment Purchase Payable	1,900,000		950,000	950,000	950,000
Compensated Absences Payable	39,878,133	6,640,098	3,207,254	43,310,977	3,031,768
Other Postemployment Benefits Payable	35,492,000	14,095,000	1,410,000	48,177,000	
Interest Rate Swap	11,583,087		364,030	11,219,057	
Other Noncurrent Liabilities	6,853,332		60,000	6,793,332	
Total Long-Term Liabilities	<u>\$ 311,301,199</u>	<u>\$ 20,735,098</u>	<u>\$ 14,665,204</u>	<u>\$ 317,371,093</u>	<u>\$ 13,556,768</u>

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2014:

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Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Student Housing Debt:				
2002 - Housing	\$ 14,055,000	\$ 7,454,152	3.875 to 4.500	2021
2007A - Housing	38,780,000	31,557,533	4.0 to 5.5	2030
2012A - Housing	66,640,000	68,138,906	3.0 to 5.0	2042
Total Student Housing Debt	119,475,000	107,150,591		
Bookstore Debt:				
1997	3,570,000	792,429	5.100 to 5.125	2017
Student Health Center Debt:				
2004A	8,000,000	4,788,244	4.2 to 5.0	2024
Parking Garage Debt:				
2004A - Parking Garage V	18,455,000	9,032,704	3.5 to 4.2	2024
2010A - Parking Garage VI	3,855,000	1,404,169	4.0	2016
2010B - Parking Garage VI	11,140,000	11,140,000	4.5 to 6.2	2029
2011A - Parking Garage	11,005,000	9,402,267	3.0 to 5.0	2022
2012A - Parking Garage	7,860,000	7,830,323	3.0 to 5.0	2032
Total Parking Garage Debt	52,315,000	38,809,463		
Total Capital Improvement Debt	\$ 183,360,000	\$ 151,540,727		

Note: (1) Amount outstanding includes unamortized discounts and premiums.

The University has pledged a portion of future housing rental, bookstore, and parking revenues, and health service facility fees based on credit hours to repay \$183,360,000 in capital improvement revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student housing, a bookstore, student health facilities, and student parking garages. The bonds are payable solely from housing rental revenues, bookstore revenues, parking and transportation fees, and student health fees, and are payable through 2042. The University has committed to appropriate each year, amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$215,129,320, and principal and interest paid for the current year totaled \$13,993,904. During the 2013-14 fiscal year, operating revenues generated from housing rental, bookstore, and parking revenues, and student health fees totaled \$28,701,629, \$1,675,257, \$18,710,830, and \$14,126,908, respectively.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2014, are as follows:

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<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 8,280,000	\$ 6,534,436	\$ 14,814,436
2016	8,610,000	6,209,420	14,819,420
2017	8,435,000	5,832,471	14,267,471
2018	8,520,000	5,430,116	13,950,116
2019	8,355,000	5,013,526	13,368,526
2020-2024	40,405,000	18,989,853	59,394,853
2025-2029	33,130,000	10,451,398	43,581,398
2030-2034	15,230,000	4,897,700	20,127,700
2035-2039	10,315,000	2,689,719	13,004,719
2040-2042	7,325,000	475,681	7,800,681
Subtotal	148,605,000	66,524,320	215,129,320
Plus: Net Bond Discounts and Premiums	2,935,727		2,935,727
Total	\$ 151,540,727	\$ 66,524,320	\$ 218,065,047

Bonds Payable. One of the University's blended component units, the UCF Finance Corporation (Corporation), issued \$60 million in bonds to finance the construction of the Burnett Biomedical Sciences Building, 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 a synthetic interest rate of 4.49 percent at June 30, 2014. 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 whereby 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, 2014, are as follows:

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Fiscal Year Ending June 30	Bonds Payable			Net Cash Flows
	Principal	Interest	Interest Rate Swap	
2015	\$ 1,295,000	\$ 2,423,428	\$ 60,918	\$ 3,779,346
2016	1,355,000	2,366,759	59,493	3,781,252
2017	1,415,000	2,307,464	58,003	3,780,467
2018	1,490,000	2,245,544	56,446	3,791,990
2019	1,555,000	2,180,342	54,807	3,790,149
2020-2024	8,945,000	9,814,491	246,708	19,006,199
2025-2029	11,245,000	7,665,437	192,687	19,103,124
2030-2034	14,160,000	4,961,289	124,712	19,246,001
2035-2038	13,920,000	1,557,855	39,160	15,517,015
Total	\$ 55,380,000	\$ 35,522,609	\$ 892,934	\$ 91,795,543

The Corporation entered into an interest rate swap agreement in connection with \$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 (0.04 percent at June 30, 2014). The variable-rate coupons of the bonds are reset weekly by auction. As of June 30, 2014, the Corporation was not exposed to credit risk on this interest rate swap agreement because it had a negative fair value of \$11,219,057, which is reported in deferred outflows of resources on the statement of net position. This deferred outflow reflects the settlement amount the Corporation would have to pay on June 30, 2014, 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 may require 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. As of June 30, 2014, collateralization was not required due to the swap agreement having a negative fair value.

The University entered into a support agreement such that it will fund certain deficiencies that may arise in the event the 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.

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.

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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, 2014, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$43,310,977. The current portion of the compensated absences liability, \$3,031,768, 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. For the 2013-14 fiscal year, 422 retirees received postemployment healthcare benefits. The University provided required contributions of \$1,410,000 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 \$2,540,000, which represents 0.8 percent of covered payroll.

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

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Description	Amount
Normal Cost (Service Cost for One Year)	\$ 8,637,000
Amortization of Unfunded Actuarial Accrued Liability	4,733,000
Interest on Normal Cost and Amortization	535,000
Annual Required Contribution	13,905,000
Interest on Net OPEB Obligation	1,420,000
Adjustment to Annual Required Contribution	(1,230,000)
Annual OPEB Cost (Expense)	14,095,000
Contribution Toward the OPEB Cost	(1,410,000)
Increase in Net OPEB Obligation	12,685,000
Net OPEB Obligation, Beginning of Year	35,492,000
Net OPEB Obligation, End of Year	\$ 48,177,000

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, 2014, and for the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$ 11,469,000	14.2%	\$ 25,828,000
2012-13	11,519,000	16.1%	35,492,000
2013-14	14,095,000	10.0%	48,177,000

Funded Status and Funding Progress. As of July 1, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$141,984,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$141,984,000, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$305,107,256 for the 2013-14 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 46.5 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 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.

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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, 2013, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2014, and the University's 2013-14 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 and an inflation rate of 3 percent. Initial healthcare cost trend rates were 7.4 percent, 7 percent, and 8.2 percent for the first three years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 3.9 percent, 7.8 percent, and 8.3 percent for the first three years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates both grade down to an ultimate rate of 5 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, 2014, was 23 years.

Interest Rate Swap. As described previously in the Bonds Payable paragraph above, the Corporation entered into an interest rate swap agreement in connection with its \$60 million bond issuance. As of June 30, 2014, this interest rate swap agreement had a negative fair value of \$11,219,057.

Other Noncurrent Liabilities. Other noncurrent liabilities consist of the liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan Program. Under the Perkins Loan 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 \$6,793,332 at June 30, 2014.

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 UCF 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 UCF Convocation Corporation extinguished Certificate of Participation long-term debt obligations by the issuance of a new Certificate of Participation debt instrument as follows:

- On May 29, 2014, the UCF Convocation Corporation issued a \$58,645,000 Refunding Certificate of Participation, Series 2014A to a bank. The certificate will mature on October 1, 2034, and bears interest at a fixed rate of 3.61 percent per annum. Proceeds of \$58,482,785 from the Refunding Certificate plus an additional \$1,236,784 from a Series 2004A account were used to purchase \$59,719,569 of U.S. Treasury

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State and Local Government Series Securities. These securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 2004A tax-exempt certificates, which defeased the certificates. The trust assets and the liability for the defeased certificates are not included in the statement of net position. The trust extinguished the defeased certificates on October 1, 2014. At June 30, 2014, the outstanding balance of the defeased debt was \$58,290,000. As a result of the refunding, the UCF Convocation Corporation reduced its capital improvement debt service requirement by \$9,893,750 over the next 20 years and obtained an economic gain of \$6,944,510.

The outstanding balance of the remaining certificates at June 30, 2014, was \$212,430,000, before an unamortized premium of \$3,050,586.

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, 2014, was \$40,600,000, before an unamortized premium of \$405,064. The certificates are secured by a pledge from the UCF Athletic Association, Inc., of gross ticket revenues, Association rent, conference distributions, and sponsorship revenue.

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.

In addition, the University has entered into various support agreements with UCF Convocation Corporation whereby, in the event of certain deficiencies for debt service coverage requirements or reserve account shortfalls, the University agrees to transfer funds to cover any such deficiencies. For the fiscal year ended June 30, 2014, transfers from the University totaled \$2,500,000.

Also, in fiscal year 2014, the UCF Convocation Corporation met requirements necessary to release certain restricted funds held by the Convocation Corporation's trustee. The Convocation Corporation's governing board made the decision to remit these funds back to the University. Transfers to the University were \$1,902,774 for the fiscal year ended June 30, 2014.

Loans and Notes Payable – Component Units. In October 1997, the University of Central Florida Foundation, Inc., signed renewal annuity notes payable with two Charitable Remainder Annuity Trusts for which the Foundation is named as irrevocable beneficiary. As of June 30, 2014, the outstanding principal balance of the notes payable was \$1,968,352 and annuity obligations were \$503,494. The notes mature in October 2017.

During the 2004-05 fiscal year, the University of Central Florida Foundation, Inc., entered into two notes of \$10,400,000 and \$2,800,000, respectively, with banks for land and buildings purchase. The \$10,400,000 note was refinanced during the 2008-09 fiscal year. The notes are secured by the land and lease revenues. The combined outstanding balances of the notes payable at June 30, 2014, were \$10,115,000 and the notes mature on April 1, 2029, and April 1, 2015.

During the 2007-08 fiscal year, the Golden Knights Corporation entered into a loan agreement with a bank for \$16,700,000. The proceeds of the loan were used to purchase all of the formerly issued and outstanding Series

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2006B taxable certificates of participation. Those certificates of participation are held in trust and have been registered in the name of the bank as pledgee. The note is payable from and secured by a lien upon and pledge of all the payments received with respect to the certificates. The outstanding balance of the note payable at June 30, 2014, was \$11,825,000, and the loan matures on April 1, 2016.

During the 2009-10 fiscal year, the University of Central Florida Foundation, Inc., entered into a loan agreement with a bank for \$19,925,000. The note is comprised of both tax-exempt and taxable portions. The note is secured by building and lease revenue. The outstanding balance for both the taxable and tax exempt portions was \$16,960,000, before unamortized deferred amounts on refunding of \$112,383, and the loan matures on October 1, 2025.

The University of Central Florida Foundation, Inc., entered into a \$2,450,000 line of credit with a credit union in November 2, 2004, for construction of the Alumni Center. As of June 30, 2014, the outstanding principal balance of the line of credit was \$323,425.

9. 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 the 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. The 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), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of both Plans may include up to 4 years of credit for military service toward creditable 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 DROP for a period not to exceed 60 months after electing to

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participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee 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 the Investment Plan vest at one year of service.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2013-14 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	6.95
Florida Retirement System, Senior Management Service	3.00	18.31
Florida Retirement System, Special Risk	3.00	19.06
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.84
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.20 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include .03 percent for administrative costs of the Investment Plan.

(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 including employee contributions for the fiscal years ended June 30, 2012, June 30, 2013, and June 30, 2014, totaled \$7,435,235, \$7,750,823, and \$10,053,835, respectively, which were equal to the required contributions for each fiscal year.

There were 805 University participants in the Investment Plan during the 2013-14 fiscal year. The University’s contributions including employee contributions to the Investment Plan totaled \$3,114,368, which was equal to the required contribution for the 2013-14 fiscal year.

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’ Web site

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(www.myfloridacfo.com). 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 Division of Retirement’s Web site (www.frs.myflorida.com).

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 FRS for eight or more years.

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes, on behalf of the participant, 7.34 percent of the participant’s salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee’s salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant’s annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 2,178 University participants during the 2013-14 fiscal year. The University’s contributions to the Program totaled \$12,921,521 and employee contributions totaled \$9,288,348 for the 2013-14 fiscal year.

10. CONSTRUCTION COMMITMENTS

The University’s construction commitments at June 30, 2014, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
Optical Material's Lab	\$ 1,694,296	\$ 1,127,283	\$ 567,013
Library Renovations	1,247,761	716,523	531,238
AMPAC Lab Renovations	866,182	127,783	738,399
Other Projects (1)	9,163,431	7,324,298	1,839,133
Total	\$ 12,971,670	\$ 9,295,887	\$ 3,675,783

Note: (1) Individual projects with current balances committed of less than \$500,000 at June 30, 2014.

11. OPERATING LEASE COMMITMENTS

The University leased buildings under operating leases, which expire in various intervals through 2037. These leased assets and the related commitments are not reported on the University’s statement of net position. 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:

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<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2015	\$ 11,555,815
2016	11,356,291
2017	10,865,203
2018	10,481,259
2019	9,954,983
2020-2024	8,998,171
2025-2029	8,775,203
2030-2034	10,172,865
2035-2037	6,865,790
Total Minimum Payments Required	<u><u>\$ 89,025,580</u></u>

The University of Central Florida Foundation, Inc., receives rents and reimbursement for certain operating expenses from the University for various buildings owned by the Foundation and occupied by the University. The Foundation and University are also parties to a long-term 99-year ground lease for use of the land at Lake Nona for the Health Sciences Campus. Rents and reimbursements paid by the University for the year ended June 30, 2014, were \$9,566,693.

The University has also entered into lease and rental agreements with the UCF Convocation Corporation for use of the Convocation Center, parking garages, and various retail spaces surrounding the arena. Rents paid to the UCF Convocation Corporation for the year ended June 30, 2014, totaled \$4,536,866.

12. 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 2013-14 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. 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 \$50 million for named windstorm and flood losses through February 15, 2014, and increased to \$54 million starting February 16, 2014. For perils other than named windstorm 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 \$200,000 per person and \$300,000 per occurrence as set by Section 768.28(5), 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.

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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.

University Self-Insurance Program

The University of Central Florida, College of Medicine Self-Insurance Program (Program) was established pursuant to Section 1004.24, Florida Statutes, on September 25, 2008. The Program's purpose is to provide comprehensive general liability and professional liability (malpractice) coverage for the University of Central Florida Board of Trustees and students for claims and actions arising from the clinical activities of the College of Medicine, College of Nursing, UCF Health Services, College of Health and Public Affairs, and the Central Florida Clinical Practice Organization, Inc., faculty, staff, and resident physicians. The Program provides legislative claims bill protection.

Prior to October 1, 2011, the Program provided the Board of Trustees with protection of \$100,000 per claim and \$200,000 for all claims arising from a single occurrence; \$100,000 per claim and \$200,000 for all claims arising from the same occurrence for the acts and omissions of students of the colleges protected by the Program engaged in assigned activities at affiliated hospitals or other healthcare affiliates, and this student professional liability coverage may be increased subject to a \$1,000,000 limit per occurrence if higher limits of liability are required by an affiliated hospital or healthcare affiliate; \$250,000 per occurrence in the event that the personal immunity to tort claims as described in Section 768.28(9), Florida Statutes, is inapplicable as to an employee or agent of Trustees while such employee or agent functions within the course and scope of his or her employment or agency; and \$250,000 for employees who act as a Good Samaritan or are engaged in approved Community Service. In response to the Florida Legislature increasing the limits of liability contained in Section 768.28, Florida Statutes, effective October 1, 2011, the limits of protection for sovereign immune entities rose to \$200,000 per claim and \$300,000 for all claims arising from a single occurrence. By action of the UCF College of Medicine Self-Insurance Program Council, on March 23, 2012, the student coverage was increased to \$200,000 per claim and \$300,000 from all claims arising from the same occurrence; the \$1,000,000 increased limit was not affected by this action. Under this claims-incurred policy written directly with the Program participants, protection is provided against claims that arise from incidents occurring during the term of the policies irrespective of the time the claim is asserted.

The Self-Insurance Program's estimated liability for unpaid claims at fiscal year-end is the result of management and actuarial analysis and includes an amount for claims that have been incurred but not reported. Changes in the balances of claims liability for the Self-Insurance Program during the 2012-13 and 2013-14 fiscal years are presented in the following table:

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Fiscal Year Ended	Claims Liabilities Beginning of Year	Claims and Changes in Estimates	Claim Payments	Claims Liabilities End of Year
June 30, 2013	\$ 94,395	\$ (51,092)	\$	\$ 43,303
June 30, 2014	43,303	(5,750)		37,553

13. LITIGATION

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

14. 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 position are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 249,129,617
Research	102,907,388
Public Services	6,087,098
Academic Support	61,758,186
Student Services	48,944,188
Institutional Support	93,921,401
Operation and Maintenance of Plant	39,376,998
Scholarships and Fellowships	84,331,278
Depreciation	60,849,674
Auxiliary Enterprises	74,026,982
Loan Operations	374,341
Total Operating Expenses	\$ 821,707,151

15. 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 bonds are outstanding:

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Condensed Statement of Net Position

	Bookstore Capital Improvement Debt	Housing Capital Improvement Debt	Parking Capital Improvement Debt	Health Service Capital Improvement Debt
Assets				
Current Assets	\$ 3,724,135	\$ 13,060,526	\$ 11,716,996	\$ 4,407,419
Capital Assets, Net	3,185,682	104,281,447	59,958,449	8,421,704
Other Noncurrent Assets	588,017	12,157,869	9,937,718	7,497,740
Total Assets	7,497,834	129,499,842	81,613,163	20,326,863
Liabilities				
Current Liabilities	250,470	9,293,318	5,465,376	807,996
Noncurrent Liabilities	542,429	103,376,296	35,566,420	5,023,442
Total Liabilities	792,899	112,669,614	41,031,796	5,831,438
Net Position				
Net Investment in Capital Assets	2,393,253	(2,869,144)	21,148,986	3,633,460
Restricted - Expendable	588,795	11,041,464	8,557,189	7,486,876
Unrestricted	3,722,887	8,657,908	10,875,192	3,375,089
Total Net Position	\$ 6,704,935	\$ 16,830,228	\$ 40,581,367	\$ 14,495,425

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

	Bookstore Capital Improvement Debt	Housing Capital Improvement Debt	Parking Capital Improvement Debt	Health Service Capital Improvement Debt
Operating Revenues	\$ 1,675,257	\$ 28,701,629	\$ 18,710,830	\$ 18,655,569
Depreciation Expense	(199,303)	(4,658,410)	(2,209,507)	(422,095)
Other Operating Expenses	(547,902)	(17,450,492)	(11,317,179)	(14,150,274)
Operating Income	928,052	6,592,727	5,184,144	4,083,200
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	165,407	1,069,539	1,085,125	438,476
Interest Expense	(53,882)	(3,315,725)	(1,512,332)	(245,391)
Other Nonoperating Expense	(21,546)	(1,149,241)	(567,197)	(75,535)
Net Nonoperating Revenues (Expenses)	89,979	(3,395,427)	(994,404)	117,550
Other Revenues, Expenses, Gains, and Losses	(253,068)	(1,801,841)	(881,724)	(1,700,959)
Increase in Net Position	764,963	1,395,459	3,308,016	2,499,791
Net Position, Beginning of Year	5,939,972	15,434,769	37,273,351	11,995,634
Net Position, End of Year	\$ 6,704,935	\$ 16,830,228	\$ 40,581,367	\$ 14,495,425

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Condensed Statement of Cash Flows

	Bookstore Capital Improvement Debt	Housing Capital Improvement Debt	Parking Capital Improvement Debt	Health Service Capital Improvement Debt
Net Cash Provided (Used) by:				
Operating Activities	\$ 1,077,433	\$ 12,932,122	\$ 7,575,525	\$ 4,591,793
Noncapital Financing Activities	(303,537)	(1,626,873)	(842,388)	(1,671,426)
Capital and Related Financing Activities	(298,892)	(22,115,814)	(13,160,238)	(1,030,867)
Investing Activities	(501,369)	10,140,834	6,142,311	(1,892,976)
Net Decrease in Cash and Cash Equivalents	(26,365)	(669,731)	(284,790)	(3,476)
Cash and Cash Equivalents, Beginning of Year	365,626	2,513,019	1,846,652	912,892
Cash and Cash Equivalents, End of Year	\$ 339,261	\$ 1,843,288	\$ 1,561,862	\$ 909,416

16. BLENDED COMPONENT UNITS

The University has two blended component units as discussed in note 1. The following financial information is presented for the University's blended component units:

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Condensed Statement of Net Position						
	Blended Component Units		Total	University	Eliminations	Total
	UCF Finance Corporation	University of Central Florida College of Medicine Self-Insurance Program	Blended Component Units			Primary Government
Assets:						
Current Assets	\$ 4,103,879	\$ 3,548,400	\$ 7,652,279	\$ 513,787,908	\$	\$ 521,440,187
Capital Assets, Net				857,163,334		857,163,334
Due From University/Blended Component Unit	49,523,758		49,523,758		(49,523,758)	
Other Noncurrent Assets	2,110,102		2,110,102	111,599,488		113,709,590
Total Assets	55,737,739	3,548,400	59,286,139	1,482,550,730	(49,523,758)	1,492,313,111
Deferred Outflows of Resources	11,219,057		11,219,057			11,219,057
Liabilities:						
Current Liabilities	1,511,140	40,553	1,551,693	76,004,853		77,556,546
Due To University/Blended Component Unit				49,523,758	(49,523,758)	
Other Noncurrent Liabilities	65,304,057		65,304,057	238,510,268		303,814,325
Total Liabilities	66,815,197	40,553	66,855,750	364,038,879	(49,523,758)	381,370,871
Net Position:						
Net Investment in Capital Assets				657,553,436		657,553,436
Restricted - Expendable	141,599	3,507,847	3,649,446	151,010,406		154,659,852
Unrestricted				309,948,009		309,948,009
Total Net Position	\$ 141,599	\$ 3,507,847	\$ 3,649,446	\$ 1,118,511,851	\$	\$ 1,122,161,297

Condensed Statement of Revenues, Expenses, and Changes in Net Position						
	Blended Component Units		Total	University	Eliminations	Total
	UCF Finance Corporation	University of Central Florida College of Medicine Self-Insurance Program	Blended Component Units			Primary Government
Operating Revenues	\$	\$ 155,977	\$ 155,977	\$ 443,766,578	\$ (142,996)	\$ 443,779,559
Depreciation Expense				(60,849,674)		(60,849,674)
Other Operating Expenses	(190,304)	(80,405)	(270,709)	(760,574,549)	(12,219)	(760,857,477)
Operating Income (Loss)	(190,304)	75,572	(114,732)	(377,657,645)	(155,215)	(377,927,592)
Nonoperating Revenues (Expenses):						
Nonoperating Revenue	2,840,652	51,516	2,892,168	443,021,323	(2,992,694)	442,920,797
Interest Expense	(2,492,373)		(2,492,373)	(5,155,830)		(7,648,203)
Other Nonoperating Expense	(406,398)		(406,398)	(42,236,412)	3,147,909	(39,494,901)
Net Nonoperating Revenues (Expenses)	(58,119)	51,516	(6,603)	395,629,081	155,215	395,777,693
Other Revenues, Expenses, Gains, and Losses				23,280,652		23,280,652
Increase (Decrease) in Net Position	(248,423)	127,088	(121,335)	41,252,088		41,130,753
Net Position, Beginning of Year	390,022	3,380,759	3,770,781	1,077,259,763		1,081,030,544
Net Position, End of Year	\$ 141,599	\$ 3,507,847	\$ 3,649,446	\$ 1,118,511,851	\$	\$ 1,122,161,297

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	Blended Component Units		Total Blended Component Units	University	Eliminations	Total Primary Government
	UCF Finance Corporation	University of Central Florida College of Medicine Self-Insurance Program				
Net Cash Provided (Used) by:						
Operating Activities	\$ (312,446)	\$ 92,265	\$ (220,181)	\$ (301,088,157)	\$ (161,056)	\$ (301,469,394)
Noncapital Financing Activities				392,549,485	3,924,901	396,474,386
Capital and Related Financing Activities	32,162		32,162	(55,591,779)	(3,763,845)	(59,323,462)
Investing Activities	11,950	(2,003,593)	(1,991,643)	(35,175,725)		(37,167,368)
Net Increase (Decrease) in Cash and Cash Equivalents	(268,334)	(1,911,328)	(2,179,662)	693,824		(1,485,838)
Cash and Cash Equivalents, Beginning of Year	6,359,067	3,418,983	9,778,050	46,632,256		56,410,306
Cash and Cash Equivalents, End of Year	<u>\$6,090,733</u>	<u>\$ 1,507,655</u>	<u>\$7,598,388</u>	<u>\$ 47,326,080</u>	<u>\$</u>	<u>\$ 54,924,468</u>

17. DISCRETELY PRESENTED COMPONENT UNITS

The University has six 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:

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Condensed Statement of Net Position

	Direct-Support Organizations				Total	Other	Total	
	University of Central Florida Foundation, Inc.	UCF Athletics Association, Inc.	University of Central Florida Research Foundation, Inc.	Golden Knights Corporation	UCF Convocation Corporation	Direct Support Organizations	Central Florida Clinical Practice Organization, Inc.	
Assets:								
Current Assets	\$ 21,980,246	\$ 5,306,022	\$ 9,304,577	\$ 1,459,994	\$ 17,115,653	\$ 55,166,492	\$ 619,582	\$ 55,786,074
Capital Assets, Net	78,502,576	16,023,518		48,219,119	168,436,686	311,181,899	299,187	311,481,086
Other Noncurrent Assets	186,951,084		454,037	9,848,911	16,519,018	213,773,050		213,773,050
Total Assets	287,433,906	21,329,540	9,758,614	59,528,024	202,071,357	580,121,441	918,769	581,040,210
Liabilities:								
Current Liabilities	5,308,784	11,287,545	5,664,603	3,052,620	9,046,326	34,359,878	595,156	34,955,034
Noncurrent Liabilities	28,876,900	10,420,425		51,690,064	210,450,586	301,437,975		301,437,975
Total Liabilities	34,185,684	21,707,970	5,664,603	54,742,684	219,496,912	335,797,853	595,156	336,393,009
Net Position:								
Net Investment in Capital Assets	51,315,194	9,228,295		(3,859,495)	(43,522,270)	13,161,724	299,187	13,460,911
Restricted	184,472,886		530,680	8,486,996	21,918,151	215,408,713		215,408,713
Unrestricted	17,460,142	(9,606,725)	3,563,331	157,839	4,178,564	15,753,151	24,426	15,777,577
Total Net Position	\$ 253,248,222	\$ (378,430)	\$ 4,094,011	\$ 4,785,340	\$ (17,425,555)	\$ 244,323,588	\$ 323,613	\$ 244,647,201

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

	Direct-Support Organizations					Total	Other	Total
	University of Central Florida Foundation, Inc.	UCF Athletics Association, Inc.	University of Central Florida Research Foundation, Inc.	Golden Knights Corporation	UCF Convocation Corporation	Direct Support Organizations	Central Florida Clinical Practice Organization, Inc.	
Operating Revenues	\$ 51,709,625	\$ 44,848,833	\$ 6,214,413	\$ 3,025,453	\$ 29,474,228	\$135,272,552	\$1,628,694	\$ 136,901,246
Depreciation Expense	(1,966,374)	(802,898)		(1,645,860)	(5,932,611)	(10,347,743)	(116,738)	(10,464,481)
Operating Expenses	(33,057,092)	(38,636,879)	(5,712,376)	(932,827)	(16,448,011)	(94,787,185)	(632,202)	(95,419,387)
Operating Income	16,686,159	5,409,056	502,037	446,766	7,093,606	30,137,624	879,754	31,017,378
Net Nonoperating Revenues (Expenses)								
Nonoperating Revenues	7,427,485	280,776	106,144	1,659,983	3,041,601	12,515,989		12,515,989
Interest Expense		(288,794)		(2,022,335)	(10,268,467)	(12,579,596)		(12,579,596)
Other Nonoperating Expenses	(166,601)	(3,850,215)		(740,987)	(4,836,143)	(9,593,946)	(781,104)	(10,375,050)
Net Nonoperating Revenues (Expenses)	7,260,884	(3,858,233)	106,144	(1,103,339)	(12,063,009)	(9,657,553)	(781,104)	(10,438,657)
Other Revenues, Expenses, Gains, and Losses	2,509,861					2,509,861		2,509,861
Increase (Decrease) in Net Position	26,456,904	1,550,823	608,181	(656,573)	(4,969,403)	22,989,932	98,650	23,088,582
Net Position, Beginning of Year	226,791,318	(1,929,253)	3,485,830	5,441,913	(12,456,152)	221,333,656	224,963	221,558,619
Net Position, End of Year	\$ 253,248,222	\$ (378,430)	\$ 4,094,011	\$ 4,785,340	\$ (17,425,555)	\$244,323,588	\$ 323,613	\$ 244,647,201

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

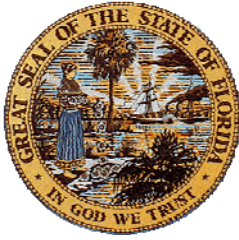
18. SUBSEQUENT EVENTS

In October 2014, the UCF Convocation Corporation component unit issued a \$58,930,000 Refunding Certificate of Participation, Series 2014B to a local financial institution. The certificate will mature on October 1, 2035, and bears interest at a fixed rate of 3.8 percent per annum. Proceeds of \$58,770,584 from the Refunding Certificate plus an additional \$1,577,608 from the Series 2005A account were used to purchase \$60,348,192 of U.S. Treasury State and Local Government Series Securities. These securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the outstanding 2005A tax-exempt certificates of participation, which defeased the certificates. The Corporation expects to extinguish the debt on October 1, 2015.

**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]
7/1/2009	\$ -	\$ 83,256,000	\$ 83,256,000	0%	\$ 255,712,129	32.6%
7/1/2011	-	118,673,000	118,673,000	0%	280,490,639	42.3%
7/1/2013	-	141,984,000	141,984,000	0%	305,107,256	46.5%

- Notes: (1) The entry-age cost actuarial method was used to calculate the actuarial accrued liability.
 (2) The July 1, 2013, unfunded actuarial liability of \$141,984,000 was higher than the July 1, 2011, liability of \$118,673,000 primarily as a result of a lower than expected increase in retiree contribution rates, an implicit subsidy resulting from less than the full cost of coverage now being paid by participants in four HMO plans, changes in demographic data and assumptions, and certain trend assumptions.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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*

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 24, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who 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 of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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. 2015-086.

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 24, 2015