



AUDITOR GENERAL
WILLIAM O. MONROE, CPA



UNIVERSITY OF CENTRAL FLORIDA
Financial Statement Audit

For the Fiscal Year Ended June 30, 2003

During the audit period, the President of the University was Dr. John C. Hitt. Members of the University's Board of Trustees who served during the audit period are listed below:

Board Member

Richard Nunis, Chairman
Thomas Yochum, Vice Chairman
Judith Albertson
Brian Battles from 5-22-03 (1)
Olga M. Calvet
Arlen Chase from 5-22-03
Patrick T. Christiansen
Geraldine Ferris
Phyllis A. Klock
Richard Lee
Mike Mullens from 1-23-03 to 3-27-03
Ava L. Parker to 1-6-03
Marco A. Peña to 3-27-03 (1)
Harris Rosen
Conrad Santiago
Richard Walsh

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

UNIVERSITY OF CENTRAL FLORIDA

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EXECUTIVE SUMMARY

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

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

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

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

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



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of 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, 2003, as shown on pages 9 through 31. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, as described in note 1 to the financial statements, which comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units column. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for these entities, is based solely upon the reports of the other auditors.

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

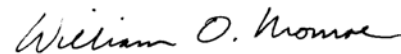
In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Central Florida and of its aggregate discretely presented component units as of June 30, 2003, and the respective changes in financial

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

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 5 through 8 is not a required part of the financial statements, but is supplementary information required by the accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Respectfully submitted,



William O. Monroe, CPA
February 24, 2004



WILLIAM O. MONROE, CPA
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AUDITOR GENERAL STATE OF FLORIDA

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

We have audited the financial statements of the University of 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, 2003, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report on the financial statements included disclosures regarding our reference to the reports of other auditors.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the University's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of

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

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

Respectfully submitted,



William O. Monroe, CPA
February 24, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the University of Central Florida's annual financial statements introduces the financial statements and provides an analytical overview of the University's financial activities during the fiscal year ended June 30, 2003. The discussion and analysis is designed to focus on current activities, the resulting change, and currently known facts. It should be read in conjunction with the basic financial statements and notes thereto.

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which established a new reporting format for financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies the new reporting standards to public colleges and universities. GASB Statement No. 35 allows public colleges and universities the option of reporting as special-purpose governments either engaged in only business-type activities, engaged in only governmental activities, or engaged in both governmental and business-type activities. The State's universities, including the University of Central Florida, elected to report as entities engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity-wide reporting. This marked the first time that public universities were required to record and report depreciation for fixed assets. The financial statements are comprised of the following:

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

The objective of these financial statements is to provide full and adequate disclosure of all pertinent financial information. When analyzing the financial statements of the University of Central Florida, interested external parties are able to evaluate the efficiency and effectiveness of the University's operations, and determine the extent to which fiscal and other compliance responsibilities have been met.

FINANCIAL HIGHLIGHTS

These financial statements represent the University's second year using the new reporting standards required by GASB Statement Nos. 34 and 35. This is also the second year the University will be audited as a component unit of the State of Florida, rather than as a State agency.

THE STATEMENT OF NET ASSETS

The statement of net assets reports all financial and capital resources of the University at the end of the fiscal year. The assets and liabilities are shown in order of their relative liquidity. An asset's liquidity is determined by how

readily it is expected to be converted to cash and whether restrictions limit the University's ability to use the resources. A liability's liquidity is based on its maturity, or when cash is expected to be used to liquidate it. The difference between the assets and liabilities is reported as net assets.

Total assets as of June 30, 2003, are \$717 million, an increase of \$74 million over the 2001-02 fiscal year. Net depreciable capital assets totaled \$429 million, which is net of accumulated depreciation in the amount of \$270 million. This is an increase of \$37 million over net depreciable capital assets as of June 30, 2002. The depreciation calculation is a requirement of implementing GASB Statement Nos. 34 and 35.

Liabilities at the end of the fiscal year totaled \$218 million, an increase of \$3 million over the 2001-02 fiscal year. Of this amount, 68 percent related to debt for bonds payable of \$147 million and installment purchases payable of \$3 million. A detailed accounting of these long-term liabilities is shown in the notes to the financial statements.

The University's net assets balance of \$499 million at the end of the year included \$324 million invested in net capital assets and \$54 million in unrestricted net assets. This is an increase in the University's net assets balance of \$71 million over the 2001-02 fiscal year.

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

The statement of revenues, expenses, and changes in net assets is the operating statement of the University and, as such, reports all revenues and expenses of the University for the fiscal year. Revenues are reported by major sources, and are reported net of related discounts and allowances. The statement distinguishes between operating and nonoperating revenues and the resulting net is displayed as operating income. Nonoperating revenues and expenses are reported after operating income. Revenues from capital contributions and transfers are reported separately after nonoperating revenues and expenses.

In the 2002-03 fiscal year, revenues totaled \$505 million, an increase of \$83 million over the 2001-02 fiscal year. State appropriations totaling \$200 million, or 40 percent, constituted the largest components of revenues. Sponsored programs continue to be a major source of revenues totaling \$89 million, or 18 percent. Operating expenses totaled \$423 million during the 2002-03 fiscal year, an increase of \$74 million over the 2001-02 fiscal year. Depreciation expense of \$40 million is included in operating expenses.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides relevant information about the cash receipts and cash disbursements of an institution during the fiscal year. The statement of cash flows reports the cash effects during the fiscal year of an institution's operations, its noncapital financing transactions, its capital and related financing transactions, and its investing transactions. This statement also reconciles the beginning cash balance with the ending cash balance for the period.

State appropriations of \$200 million, an increase of \$30 million over the 2001-02 fiscal year, are classified as noncapital financing. The classification of State appropriations as noncapital financing makes net cash provided from operations appear as a deficit.

FINANCIAL HIGHLIGHTS BY FUNDING SOURCE

EDUCATION AND GENERAL

The major funding source of the University is derived from Educational and General Funds, consisting of general revenue appropriated by the Legislature from tax collections, Educational Enhancement Funds from proceeds of the State Lottery System, and the Student Fee Trust Fund from revenues generated by the University through student fees. During the 2002-03 fiscal year, funds received from these sources amounted to \$276 million, or 56 percent of total revenue. General revenue funds received totaled \$189 million. Educational Enhancement Funds received totaled \$11 million. Tuition and other registration fees collected from the students, net of scholarship allowances, totaled \$98 million. During the 2002-03 academic year, the per credit hour fees were as follows:

<u>Tuition Rates</u>	<u>Undergraduate</u>	<u>Graduate</u>
Resident	\$ 88.01	\$ 181.00
Nonresident	401.63	666.67

SPONSORED RESEARCH

The University has four major research institutes that emphasize research and development. They are the Institute for Simulation and Training, Center for Research and Education in Optics and Lasers, Florida Solar Energy Center, and Advanced Materials Processing and Analysis Center. Faculty members at the University attracted \$89 million in research funding from Federal, State, and private sources during the 2002-03 fiscal year. This is an \$8 million increase over the 2001-02 fiscal year, and represents 18 percent of total revenue.

AUXILIARIES

Auxiliary enterprises are self-supported activities providing services to students, faculty, and staff. These services are essential to the operations of the University, and include activities such as student housing, parking, student health services, and central stores. Auxiliary enterprises revenues were \$40 million. This is an \$8 million increase over the 2001-02 fiscal year, and represents 8 percent of total revenues received during the 2002-03 fiscal year.

CONSTRUCTION

The University has a number of construction projects under way at any given time that are essential to accommodate the growth experienced by the University in enrollment and in programs. These projects are funded from Public Education Capital Outlay (PECO) funds, the Capital Facilities Matching Trust Fund, Capital Improvement Fees, Auxiliary enterprises, and bond issues. In the 2002-03 fiscal year, funding for construction projects totaled \$59 million, a \$9 million increase over the 2001-02 fiscal year. PECO funds are the primary

source of funding for construction projects, amounting to over \$31 million during the year, or 53 percent of total construction funding. This is a \$9 million increase in PECO funding over the 2001-02 fiscal year.

LOAN

Loan funds are used to issue loans to students. The terms of the loan agreements usually specify that the money operates on a revolving basis, i.e., repayment of principal and interest are loaned to other individuals. At June 30, 2003, the University had approximately \$8 million in outstanding loans to students. This amount of outstanding loans to students remained constant with the 2001-02 fiscal year.

AGENCY

The University holds funds as custodians or fiscal agents for others. These funds include, but are not limited to, organization accounts, student deposits, professional clubs, student clubs, and student fees. Deposits payable at June 30, 2003, totaled approximately \$5 million, a \$2 million increase over the 2001-02 fiscal year.

REVENUE SUMMARY

Revenues by source for the indicated fiscal years are presented in the following table:

	Revenue (In Thousands)		Percent Change
	Fiscal Years		
	<u>2002-03</u>	<u>2001-02</u>	
Net Student Tuition and Fees	\$ 97,956	\$ 70,484	39.0
Federal Contracts and Grants	53,161	46,646	14.0
State Contracts and Grants	20,415	20,332	0.4
Private Contracts and Grants	15,458	14,413	7.3
Auxiliary Enterprises	39,805	32,286	23.3
Other Operating Revenue	10,573	4,914	115.2
State Appropriations	200,009	169,914	17.7
Other Nonoperating Revenue	6,044	10,373	(41.7)
Capital Appropriations and Grants	58,902	50,227	17.3
Transfers From Primary Government	2,711	2,417	12.2
Total	<u>\$ 505,034</u>	<u>\$ 422,006</u>	

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The economic position of the University is closely tied to that of the State of Florida. State appropriations comprise 40 percent of total revenues, and are the largest source of funding. Should the State economy slow, this could result in a decrease in State appropriations for higher education.

FINANCIAL SECTION

**UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2003**

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 42,856,141	\$ 2,870,322
Investments with State Treasury	85,484,471	
Short-Term Investments		13,583,218
Receivables, Net	22,075,502	1,352,259
Due from State	38,833,263	
Due from Component Unit	154,992	
Due from University		107,880
Notes Receivable, Net	1,631,220	
Inventories	1,148,414	
Other Current Assets	86,472	272,024
Total Current Assets	192,270,475	18,185,703
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	14,443,692	7,832,308
Other Restricted Investments	34,792,438	48,062,518
Property Held for Sale		1,503,600
Receivables, Net		4,062,686
Loans and Notes Receivable, Net	5,888,006	
Due from University		96,500
Other Noncurrent Assets	2,026,915	500,257
Depreciable Capital Assets, Net	428,729,372	21,189,934
Nondepreciable Capital Assets	38,990,961	23,035,856
Total Noncurrent Assets	524,871,384	106,283,659
TOTAL ASSETS	\$ 717,141,859	\$ 124,469,362
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 6,472,840	\$ 1,262,435
Salary and Payroll Taxes Payable	6,791,410	
Construction Contracts Payable	5,883,791	
Due to State	452,992	
Due to Component Unit	107,880	
Due to University		154,992
Deposits Payable	4,662,022	8,398
Deferred Revenue	2,805,913	353,267
Obligations Under Securities Lending and Reverse Repurchase Agreements	19,033,999	
Long-Term Liabilities - Current Portion:		
Bonds Payable	4,655,691	
Notes Payable	194,109	1,079,532
Installment Purchases Payable	1,212,852	
Compensated Absences Payable	1,151,060	5,539
Total Current Liabilities	53,424,559	2,864,163

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

	University	Component Units
Noncurrent Liabilities:		
Deferred Revenues	\$	\$ 2,692,082
Bonds Payable	143,127,944	
Notes Payable	546,194	28,888,289
Installment Purchases Payable	1,801,237	
Compensated Absences Payable	19,097,337	91,899
Due to Component Unit	96,500	
Other Long-Term Liabilities		488,670
Total Noncurrent Liabilities	164,669,212	32,160,940
TOTAL LIABILITIES	218,093,771	35,025,103
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	324,052,831	18,771,446
Restricted:		
Nonexpendable:		
Endowment		50,365,712
Expendable:		
Debt Service	426,818	
Loans	9,808,504	
Capital Projects	69,086,119	
Other Restricted Net Assets	41,918,643	12,662,381
Unrestricted	53,755,173	7,644,720
Total Net Assets	499,048,088	89,444,259
TOTAL LIABILITIES AND NET ASSETS	\$ 717,141,859	\$ 124,469,362

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

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

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$19,653,975	\$ 97,956,157	\$
Federal Grants and Contracts	53,160,792	
State and Local Grants and Contracts	20,414,913	
Nongovernmental Grants and Contracts	15,457,741	
Auxiliary Enterprises	39,805,245	
Interest on Loans Receivable	177,780	
Other Operating Revenues	6,562,737	12,429,512
Total Operating Revenues	233,535,365	12,429,512
EXPENSES		
Operating Expenses:		
Personnel Services	253,327,657	
Contractual Services	31,893,781	
Utilities	11,857,586	
Materials and Supplies	28,823,114	
Repairs and Maintenance	12,022,797	
Scholarships and Waivers	20,488,897	
Depreciation	40,118,243	
Loan Cancellations and Write-offs	166,218	
Other Services and Expenses	24,236,252	15,427,539
Total Operating Expenses	422,934,545	15,427,539
Operating Loss	(189,399,180)	(2,998,027)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	200,008,956	
Investment Income	9,824,488	1,208,582
Other Nonoperating Revenues	748,141	2,913,682
Interest on Asset-Related Debt	(8,089,817)	
Other Nonoperating Expenses	(3,597,782)	
Net Nonoperating Revenues	198,893,986	4,122,264
Income Before Other Revenue, Expenses, Gains, or Losses	9,494,806	1,124,237
Capital Appropriations	52,527,985	
Additions to Endowments		3,864,351
Capital Grants, Contracts, and Donations	6,374,495	
Transfers To/From State	2,494,121	
Total Other Revenues	61,396,601	3,864,351
Increase in Net Assets	70,891,407	4,988,588
Net Assets, Beginning of Year	428,156,681	84,455,671
Net Assets, End of Year	\$499,048,088	\$ 89,444,259

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, 2003**

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$ 97,308,960
Grants and Contracts	90,429,655
Auxiliary Sales	39,480,416
Interest on Loans Receivable	165,252
Other Operating Receipts	6,828,938
Payments to Employees	(249,741,778)
Payments to Suppliers	(84,637,301)
Payments for Scholarships	(20,488,897)
Net Loans Issued to Students	9,457
Other Operating Expenses	(24,227,291)
	(144,872,589)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	200,008,956
Operating Subsidies and Transfers	(237,515)
PLUS Loans Receipts	3,067,226
PLUS Loans Disbursements	(3,067,226)
Funds Held for Others	1,391,678
Other Receipts	747,031
Other Expenses	(62,013)
	201,848,137
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	36,942,985
Capital Grants and Contracts	1,280,887
Capital Subsidies and Transfers	12,551,926
Other Receipts for Capital Projects	1,109
Proceeds from Capital Debt	20,635,959
Purchase or Construction of Capital Assets	(82,895,383)
Principal Paid on Capital Debt and Leases	(25,813,430)
Interest Paid on Capital Debt and Leases	(8,004,332)
	(45,300,279)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of Investments	7,920,747
Investment Income	5,339,148
	13,259,895
Net Increase in Cash and Cash Equivalents	24,935,164
Cash and Cash Equivalents, Beginning of Year	32,364,669
	\$ 57,299,833

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

	University
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (189,399,180)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	40,118,243
Changes in Assets and Liabilities:	
Accounts Receivable	(978,171)
Contracts and Grants Receivable	1,396,209
Interest Receivable	(12,528)
Inventories	(138,394)
Loans and Notes Receivable	175,675
Deferred Charges	272,346
Accounts Payable	107,332
Accrued Salaries and Payables	1,543,304
Compensated Absences	2,042,575
NET CASH USED BY OPERATING ACTIVITIES	\$ (144,872,589)

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, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of the University is its Board of Trustees. The Board constitutes a body corporate composed of 13 members. Five Board members are appointed by the Florida Board of Governors and six by the Governor, and all are confirmed by the Senate. The remaining Board members consist of the Faculty Senate Chair and the Student Government President. The Board of Trustees is under the general direction and control of the Commissioner of Education and the Chancellor of the Division of Colleges and Universities, and is governed by Florida law and State Board of Education rules. By law, the Board of Trustees selects the University President for ratification by the State Board of Education. The Board of Trustees adopts University rules and procedures, and plans for the future needs of the University. The University President is responsible for the management of the University and has the ultimate responsibility for administering the policies prescribed by the Board of Trustees.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. Application of these criteria determines potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, the University is a component unit of the State of Florida.

Component Units. Based on the application of the criteria for determining component units, the University of Central Florida Foundation, Inc., and the University of Central Florida Research Foundation, Inc., are included within the University Board of Trustees' reporting entity as discretely presented component units. These organizations are considered component units of the University and therefore the June 30, 2003, audited financial statements of these organizations are included in the financial statements of the University by discrete presentation.

As provided for in Section 1004.28, Florida Statutes, these component units are also direct-support organizations. These are separate, not-for-profit corporations organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest and administer property and to make expenditures to or for the benefit of the University. An annual audit of each organization's financial statements is conducted by an independent certified

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public accountant. The annual audit report is submitted to the Auditor General and the Board of Trustees. Additional information on the University's component units, including copies of audit reports, is available by contacting the University Controller's Office. The corporations and their purposes are explained below:

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

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 the Governmental Accounting Standards Board (GASB). The University also adheres to the recommendations of the National Association of College and University Business Officers (NACUBO). NACUBO's recommendations are prepared in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public colleges and universities the option of reporting as a special-purpose government engaged in only business-type activities, engaged in only governmental activities, or engaged in both governmental and business-type activities. The State universities, including the University of Central Florida, elected to report as entities engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity-wide reporting including the following components:

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

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. University financial statements are presented using the economic resources measurement focus and the accrual

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basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-type transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange activities are generally recognized when all applicable eligibility requirements, including time requirements are met. Auxiliary service departments account for interdepartmental transactions as reductions of expenses and not revenues of those departments.

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

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

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

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

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

Cash and Cash Equivalents. The amounts reported as cash and cash equivalents consist of cash on hand and cash in demand accounts, the unexpended general revenue appropriation releases, and cash

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held in the State Treasury. Cash in demand accounts is held in banks qualified in accordance with the provisions of Chapter 280, Florida Statutes, as a public depository. Deposits are fully insured by Federal depository insurance or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, and to purchase or construct capital or other restricted assets are classified as restricted.

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

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

- Buildings and Improvements – 20 to 50 Years, Depending on Construction
- Infrastructure and Other Improvements – 12 to 50 Years
- Furniture and Equipment:
 - Equipment (Nonoffice) – 10 to 20 Years
 - Computer Equipment – 3 to 7 Years
 - Moveable Equipment – 3 to 20 Years
- Library Materials – 10 Years

2. INVESTMENTS

The University participates in investment pools through the State Treasury and the State Board of Administration in accordance with the provisions of Sections 17.61 and 215.49, Florida Statutes. The investments conform with the guidelines provided in Section 215.47, Florida Statutes, and are reported at market value of \$120,276,909. The University of Central Florida has no investments outside of the State Treasury and the State Board of Administration.

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

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

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

Under the State Treasury’s authority to purchase and sell securities, it has entered into reverse repurchase and secured lending agreements. A reverse repurchase agreement is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. A secured lending agreement is a loan of securities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. As required by generally accepted accounting principles, the University has reported investments and an offsetting current liability of \$19,033,999 in order to account for these transactions. Required note disclosures for these agreements are reported in the State’s Comprehensive Annual Financial Report.

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

	Investments			Fair Value
	Risk Category			
	1	2	3	
Stocks	\$	\$ 18,159,612	\$	\$ 18,159,612
Money Market and Mutual Funds		43,486,124		43,486,124
Total Component Units Investments	\$	\$ 61,645,736	\$	\$ 61,645,736

3. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for contracts and grants reimbursable expenses, student fees and various student services provided by the University, and various auxiliary services provided to students and third parties. These receivables are reported net of a \$529,614 allowance for uncollectible accounts.

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Notes Receivable. Notes receivable represent amounts owed on promissory notes from debtors including student loans made under the Federal Perkins Loan Program and other loan programs. These receivables are reported net of a \$291,006 allowance for uncollectible accounts.

4. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30 is shown in the following table:

	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 5,657,579	\$ 2,702,017	\$	\$ 8,359,596
Construction in Progress	25,252,770	27,306,015	22,132,170	30,426,615
Works of Art and Historical Treasures	204,612	138		204,750
Total Nondepreciable Capital Assets	\$ 31,114,961	\$ 30,008,170	\$ 22,132,170	\$ 38,990,961
Depreciable Capital Assets:				
Artwork	\$ 6,000	\$ 52,150	\$	\$ 58,150
Buildings	386,796,632	48,210,902	13,107	434,994,427
Infrastructure and Other Improvements	20,916,200	1,635,845		22,552,045
Furniture and Equipment	144,739,563	27,819,013	13,618,595	158,939,981
Library Resources	61,789,665	5,136,808	109,102	66,817,371
Other Fixed Assets	13,930,999	1,786,605	244,837	15,472,767
Total Depreciable Capital Assets	628,179,059	84,641,323	13,985,641	698,834,741
Less Accumulated Depreciation:				
Artwork	300	3,039		3,339
Buildings	84,911,225	15,347,532	10,996	100,247,761
Infrastructure and Other Improvements	5,964,083	844,583		6,808,666
Furniture and Equipment	83,931,518	21,083,033	5,947,771	99,066,780
Library Resources	53,135,663	1,520,192		54,655,855
Other Fixed Assets	8,143,206	1,319,864	140,102	9,322,968
Total Accumulated Depreciation	236,085,995	40,118,243	6,098,869	270,105,369
Total Depreciable Capital Assets, Net	\$ 392,093,064	\$ 44,523,080	\$ 7,886,772	\$ 428,729,372

5. STATE RETIREMENT PLANS

Florida Retirement System. Most employees working in regularly established positions of the University are covered by the Florida Retirement System, a State-administered cost-sharing multiple-employer public employee defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes, and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein Plan eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible and must enroll as members of the Plan. Benefits vest

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at specified ages or numbers of years of service depending upon the employee’s classification. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

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

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

The contribution rates for Plan members are established, and may be amended, by the State of Florida. Contribution rates during the 2002-03 fiscal year are presented in the following table:

<u>Class or Plan</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (A)</u>
Florida Retirement System, Regular	0.00	5.76
Florida Retirement System, Senior Management Service	0.00	6.06
Florida Retirement System, Special Risk	0.00	16.01
Teachers' Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	9.11
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance supplement and .15 percent for administrative costs of the Public Employee Optional Retirement Program.

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

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The University's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions made to the Plan (including employee contributions) for the fiscal years ended June 30, 2001, June 30, 2002, and June 30, 2003, totaled \$5,957,301, \$5,329,651, and \$4,358,909, respectively, which were equal to the required contributions for each fiscal year.

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

The Optional Retirement Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participants. Employees in eligible positions can make an irrevocable election to participate in the Optional Retirement Program rather than the Florida Retirement System, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes 10.43 percent of the participant's salary. A portion of the contribution remains in the Optional Retirement Program Trust Fund for program administrative costs. The remaining contribution is invested in the company or companies selected by the participants to create a fund for the purchase of annuities at retirement. The participants may contribute by salary reduction an amount not to exceed the percentage contributed by the University to the participants' annuity account. There were 1,754 University participants during the 2002-03 fiscal year. Required contributions made to the Optional Retirement Program in the 2002-03 fiscal year totaled \$10,144,515 including \$4,565,168 from employee contributions.

Public Employee Optional Retirement Program. Effective July 1, 2002, the Florida Legislature created a defined contribution program called the Public Employee Optional Retirement Program (PEORP). This program is an option to the Florida Retirement System and is self-directed by the employee. A retirement account is established for each employee who selects this option and an employer contribution is directed to the individual account. The employees have the responsibility of selecting how their funds are invested within the approved set of investment choices and may take their funds when they leave the Florida Retirement System. There were 162 University participants during the 2002-03 fiscal year. Required employer contributions made to the Program totaled \$180,805.

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6. POST-EMPLOYMENT BENEFITS

To assist retirees of all State-administered retirement systems in paying health insurance costs, the Florida Legislature established the Retiree Health Insurance Subsidy (HIS). During the 2002-03 fiscal year, the HIS program was funded by required contributions consisting of 1.11 percent assessed against the payroll for all active employees covered in State-administered retirement systems. This assessment is included in the Florida Retirement System rate contributions discussed in note 5.

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

7. CONSTRUCTION COMMITMENTS

The following table summarizes the University's major construction commitments (estimated cost of \$1 million or more) as of June 30, 2003:

Project	Total Estimated Commitment	Completed to Date	Balance Committed
School of Hospitality	\$ 17,003,164	\$ 10,508,813	\$ 6,494,351
Business Administration II	7,455,948	7,225,746	230,202
Student Support Center	2,227,556	894,123	1,333,433
Partnership II Building	12,925,535	1,719,369	11,206,166
Intercollegiate Athletic Complex	4,214,682	3,563,675	651,007
Education Building Remodel	4,271,387	3,811,757	459,630
Engineering Building III	1,015,629	468,041	547,588
Total	\$ 49,113,901	\$ 28,191,524	\$ 20,922,377

8. LONG-TERM LIABILITIES

Significant long-term liabilities of the University include bonds, installment purchases, a note, and compensated absences. A summary of the University's long-term liabilities activity for the fiscal year ended June 30 is presented in the following table:

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	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Debt Instruments:					
Bonds	\$ 151,695,294	\$ 20,635,959	\$ 24,547,618	\$ 147,783,635	\$ 4,655,691
Installment Purchases	3,437,101	644,112	1,067,124	3,014,089	1,212,852
Note	925,419		185,116	740,303	194,109
Other Liabilities:					
Compensated Absences	18,205,822	3,053,855	1,011,280	20,248,397	1,151,060
Total Long-Term Liabilities	\$ 174,263,636	\$ 24,333,926	\$ 26,811,138	\$ 171,786,424	\$ 7,213,712

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

- In prior years, the University deposited with escrow agents in irrevocable trusts amounts sufficient to meet the debt service requirements of the 1967 and 1980 Revenue Certificates. These defeased bonds are not reported as outstanding debt. Debt considered defeased at June 30, 2003, totaled \$3,274,000.
- On January 6, 2003, the University issued \$14,055,000 of University of Central Florida Housing Revenue Refunding Bonds, Series 2002 with interest rates ranging from 2.5 to 4.5 percent. The proceeds were used to defease \$13,525,000 of outstanding State of Florida, Board of Regents, University of Central Florida, Student Apartment Facility Revenue Bonds, Series 1992 with interest rates from 5.5 to 6.1 percent. Proceeds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. As a result of the refunding, the University reduced its debt service requirement by \$2,874,377 over the next 17 years and obtained an economic gain of \$2,018,195. The defeased bonds (\$13,525,000) were called and paid in full on February 7, 2003.
- On April 10, 2003, the State Board of Education issued \$50,545,000 of University System Improvement Revenue Refunding Bonds, Series 2003A, with interest rates ranging from 3.0 to 5.0 percent. The University of Central Florida's portion of the refunding (\$6,580,959) was used to defease \$6,934,425 of outstanding University System Improvement Revenue Bonds, Series 1993, with interest rates from 4.8 to 5.375 percent. The proceeds were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. As a result of the refunding, the University reduced its debt service requirement by \$746,784 over the next 10 years, and obtained an economic gain of \$668,813. The defeased bonds (\$6,934,425) were called and paid in full on July 1, 2003.

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

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of sinking fund resources, and compliance with reserve requirements. Bonds payable at June 30 are shown in the following table:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
Student Housing and Parking:			
Housing 1992	\$ 2,082,856	4.5 - 5.6	2013
Parking Garage I 1995	5,328,032	4.6 - 5.7	2016
Housing 1996	17,034,169	4.5 - 5.6	2027
Parking Garage II 1997	6,574,867	4.0 - 5.375	2018
Parking Garage III 1999	7,547,615	4.0 - 4.75	2020
Housing 1999	27,347,554	4.25 - 5.75	2030
Housing 2000	31,411,770	4.25 - 5.25	2031
Parking Garage IV 2001	7,440,625	3.2 - 5.0	2022
Housing 2002	13,415,094	2.5 - 4.5	2021
Academic and Student Services Facilities:			
Bookstore 1997	2,883,000	3.9 - 5.125	2017
Revenue Certificates 1997	1,690,263	5.0 - 7.0	2022
Revenue Certificates 1997A	3,017,165	4.2 - 5.0	2016
Revenue Certificates 1998	9,658,294	4.0 - 5.0	2023
Revenue Certificates 2001	5,578,593	4.0 - 5.0	2026
Revenue Certificates 2003A	6,773,738	3.0 - 5.0	2013
Total	\$ 147,783,635		

Annual requirements to amortize all bonded debt outstanding as of June 30 are shown in the following chart:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2004	\$ 4,655,691	\$ 7,321,331	\$ 11,977,022
2005	4,832,932	7,124,182	11,957,114
2006	5,038,979	6,912,705	11,951,684
2007	5,240,046	6,688,698	11,928,744
2008	5,383,514	6,452,696	11,836,210
2009-2013	31,026,951	28,240,261	59,267,212
2014-2018	33,208,524	20,246,876	53,455,400
2019-2023	28,743,872	12,092,631	40,836,503
2024-2028	21,392,416	5,429,195	26,821,611
2029-2033	9,670,000	672,611	10,342,611
Subtotal	149,192,925	101,181,186	250,374,111
Less: Net Bond Premiums, Discounts, and Loss on Refunding	1,409,290		1,409,290
Total	\$ 147,783,635	\$ 101,181,186	\$ 248,964,821

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Installment Purchases. The University has acquired the following classes of property under installment purchases:

	Asset Balance
Telecommunications Equipment	\$ 4,760,096
Computer Equipment	644,112
Total	\$ 5,404,208

Future minimum payments remaining under installment purchase contracts and the minimum payments as of June 30 are shown in the following table:

Fiscal Year Ending June 30	Amount
2004	\$ 1,341,137
2005	1,296,386
2006	577,185
2007	2,116
Total Minimum Payments	3,216,824
Less, Interest	202,735
Present Value of Minimum Payments	\$ 3,014,089

Note. The University is funding the completion of its PeopleSoft Student Administration Project with a \$1,000,000 note from SunTrust Bank. The future minimum payments as of June 30 follow:

Fiscal Year Ending June 30	Amount
2004	\$ 225,083
2005	225,083
2006	225,083
2007	131,298
Total Minimum Payments	806,547
Less, Interest at 4.75 Percent	66,244
Total Present Value	\$ 740,303

Compensated Absences Liability. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave pursuant to Department of Education Rule 6C-5.920, Florida Administrative Code; and pursuant to bargaining agreements with the United Faculty of Florida. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. GASB Statement No. 16 requires that the University accrue a liability in the statement of

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net assets for employees' right to receive compensation for future absences when certain conditions are met, whereas State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. Consequently, the recording of the liability for compensated absences, without the corresponding recognition of such future resources, results in the appearance of a reduced ability to meet current obligations. At June 30, the estimated liability for annual and sick leave, which includes the University's share of the Florida Retirement System and FICA contributions, is \$9,939,827 and \$10,308,570, respectively. The net assets at June 30 of \$499,048,088 would have been \$519,296,485 had such liability for compensated absences not been applied against it. The current compensated absences liability is based on actual usage and pay-outs over the last three years, calculated as a percentage of those years' total compensated absences liability.

9. OPERATING LEASES

The University has long-term commitments for assets leased under operating leases. These assets are not recorded on the statement of net assets; however, the operating lease payments are recorded as expenses in the statement of revenues, expenses, and changes in net assets when paid or incurred. Future minimum lease commitments for noncancelable operating leases, with remaining lease terms in excess of one year, as of June 30 are shown in the following table:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2004	\$ 6,938,451
2005	5,601,086
2006	4,157,064
2007	<u>1,636,489</u>
Total Minimum Payments	<u><u>\$ 18,333,090</u></u>

10. FUNCTIONAL DISTRIBUTION OF EXPENSES

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

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research and public service. However, when the primary mission of the departments consists of instructional program elements, all expenses of the departments are reported under the instruction classification. The functional classification of expenses is summarized in the following table:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 141,599,609
Research	74,996,722
Public Services	2,166,945
Academic Support	33,735,058
Student Services	21,845,681
Institutional Support	34,928,477
Operation and Maintenance of Plant	12,905,572
Scholarships and Fellowships	13,587,563
Auxiliary Operations	<u>46,565,403</u>
Total Functional Expenses	382,331,030
Depreciation Expenses	40,118,243
Loan Operating Expenses	<u>485,272</u>
Total Operating Expenses	<u><u>\$ 422,934,545</u></u>

11. RISK MANAGEMENT PROGRAMS

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

University employees may obtain health care services through participation in the State's group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees

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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 State of Florida, Department of Management Services, Division of Group Insurance.

12. COMPONENT UNITS

Financial data reported for the University’s component units in the 2001-02 fiscal year financial statements was actually 2000-01 fiscal year financial data since the component units’ 2001-02 fiscal year financial data was not available when the University completed its financial statements. Accordingly, the beginning net assets of \$84,455,671 reported for the component units in the accompanying financial statements differ from the component units’ prior year ending net assets by \$13,730,096.

Summary financial information for the component units of the University of Central Florida, as mentioned in the summary of significant accounting policies follows:

Condensed Statement of Net Assets

	University of Central Florida Foundation, Inc.	University of Central Florida Research Foundation, Inc.	Total
Assets			
Due from University	\$ 204,380	\$	\$ 204,380
Other Current Assets	17,423,004	654,819	18,077,823
Capital Assets, Net	44,225,790		44,225,790
Other Noncurrent Assets	61,961,369		61,961,369
Total Assets	123,814,543	654,819	124,469,362
Liabilities			
Current Liabilities	2,383,810	480,353	2,864,163
Noncurrent Liabilities	32,160,940		32,160,940
Total Liabilities	34,544,750	480,353	35,025,103
Net Assets			
Invested in Capital Assets, Net of Related Debt	18,771,446		18,771,446
Restricted	63,028,093		63,028,093
Unrestricted	7,470,254	174,466	7,644,720
Total Net Assets	\$ 89,269,793	\$ 174,466	\$ 89,444,259

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

	University of Central Florida Foundation, Inc.	University of Central Florida Research Foundation, Inc.	Total
Operating Revenues	\$ 12,408,090	\$ 21,422	\$ 12,429,512
Depreciation Expense	886,915		886,915
Other Operating Expense	14,536,115	4,509	14,540,624
Operating Income (Loss)	(3,014,940)	16,913	(2,998,027)
Nonoperating Revenue:			
Interest Income	1,196,657	11,925	1,208,582
Other Nonoperating Revenue	6,778,033		6,778,033
Total Nonoperating Revenue	7,974,690	11,925	7,986,615
Increase in Net Assets	4,959,750	28,838	4,988,588
Beginning Net Assets	84,310,043	145,628	84,455,671
Ending Net Assets	\$ 89,269,793	\$ 174,466	\$ 89,444,259

13. RELATED PARTY TRANSACTIONS

The University approved lease agreements with the University of Central Florida Foundation, Inc. (Foundation), for the use of office space at various office buildings and to lease land at Lake Pickett. The University paid the Foundation total annual rents of approximately \$4,350,100 for the fiscal year ended June 30.

14. SEGMENT INFORMATION

A segment is defined as an identifiable activity (or grouping of activities) for which one or more bonds or other debt instruments (such as certificates of participation) are outstanding. A segment has a revenue stream pledged in support of this debt, and has related revenue, expenses, gains, losses, assets and liabilities that are required to be accounted for separately. The requirement for separate reporting should be imposed by a third party (i.e., accounting and reporting set forth in bond indentures). The University of Central Florida reports three segments: The housing facility provides on-campus living accommodations for students; parking operations provides on-campus parking for faculty, staff, students, and visitors; the bookstore facility provides to Barnes and Noble College Bookstore, Inc., the exclusive right to sell books, gifts, and logo and sundry items as the official University bookstore. A summary of these segments is presented in the following tables:

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Condensed Statement of Net Assets
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	<u>Housing</u>	<u>Parking</u>	<u>Bookstore</u>
Assets			
Current Assets	\$ 6,008,393	\$ 3,294,843	\$ 316,320
Noncurrent Assets	7,517,831	2,942,951	239,953
Capital Assets	<u>81,276,899</u>	<u>32,349,495</u>	<u>4,033,689</u>
Total Assets	<u>94,803,123</u>	<u>38,587,289</u>	<u>4,589,962</u>
Liabilities			
Current Liabilities	5,456,464	2,054,883	163,920
Noncurrent Liabilities	<u>89,478,851</u>	<u>25,792,185</u>	<u>2,733,000</u>
Total Liabilities	<u>94,935,315</u>	<u>27,847,068</u>	<u>2,896,920</u>
Net Assets			
Restricted	6,168,633	2,465,659	170,268
Unrestricted	2,302,474	2,299,269	296,674
Invested In Capital Assets, Net of Related Debt	<u>(8,603,299)</u>	<u>5,975,293</u>	<u>1,226,100</u>
Total Net Assets	<u>\$ (132,192)</u>	<u>\$ 10,740,221</u>	<u>\$ 1,693,042</u>

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the 2002-03 Fiscal Year

	<u>Housing</u>	<u>Parking</u>	<u>Bookstore</u>
Operating Income:			
Operating Revenues	\$ 17,302,427	\$ 7,624,485	\$ 1,542,193
Depreciation Expense	(2,824,458)	(1,026,018)	(153,827)
Operating Expenses	<u>(6,036,061)</u>	<u>(3,061,307)</u>	<u>(17,805)</u>
Total Operating Income	<u>8,441,908</u>	<u>3,537,160</u>	<u>1,370,561</u>
Nonoperating Revenues (Expenses):			
Investment Income	1,024,127	338,614	24,749
Interest on Asset Related Debt	(4,922,172)	(1,400,650)	(121,062)
Other Nonoperating Expenses	<u>(1,054,168)</u>	<u>(43,980)</u>	<u>(51,131)</u>
Total Nonoperating Expenses	<u>(4,952,213)</u>	<u>(1,106,016)</u>	<u>(147,444)</u>
Income Before Transfers Out	3,489,695	2,431,144	1,223,117
Transfers Out	<u>(38,519)</u>	<u>(133,127)</u>	<u>(1,123,987)</u>
Increase In Net Assets	3,451,176	2,298,017	99,130
Beginning Net Assets	<u>(3,583,368)</u>	<u>8,442,204</u>	<u>1,593,912</u>
Ending Net Assets	<u>\$ (132,192)</u>	<u>\$ 10,740,221</u>	<u>\$ 1,693,042</u>

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**Condensed Statement of Cash Flows
For the 2002-03 Fiscal Year**

	<u>Housing</u>	<u>Parking</u>	<u>Bookstore</u>
Net Cash Provided (Used) By:			
Operating Activities	\$ 12,063,413	\$ 4,374,823	\$ 1,507,327
Noncapital Financing Activities	(132,545)	(133,127)	(1,257,887)
Capital and Related Financing Activities	(15,107,324)	(5,494,631)	(269,108)
Investing Activities	<u>3,681,716</u>	<u>2,277,854</u>	<u>68,390</u>
Net Increase in Cash and Cash Equivalents	505,260	1,024,919	48,722
Cash and Cash Equivalents, Beginning of Year	<u>279,254</u>	<u>3,603,961</u>	<u>187,058</u>
Cash and Cash Equivalents, End of Year	<u>\$ 784,514</u>	<u>\$ 4,628,880</u>	<u>\$ 235,780</u>