REPORT NO. 2011-105
FEBRUARY 2011

UNIVERSITY OF CENTRAL FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2010

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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) 922-2263.

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

UNIVERSITY OF CENTRAL FLORIDA
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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, 2010. 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 will be included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

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.

AUDITOR GENERAL
STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of Central Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2010, which collectively comprise the University's basic financial statements as shown on pages 10 through 37. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the blended and aggregate discretely presented component units, as described in note 1 to the financial statements. The financial statements for the blended component unit represent 5.6 percent of the total assets, and 23.5 percent of the total liabilities, 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 thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended and aggregate discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Central Florida and of its aggregate discretely presented component units as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, the University changed its reporting of the liability for Capital Improvement (Bookstore, Housing, Parking, and Health Center) Revenue Bonds from bonds payable to capital improvement debt payable during the 2009-10 fiscal year. This change affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

As discussed in note 3 to the financial statements, the University discontinued reporting bonds payable for State University System Capital Improvement Trust Fund Revenue Bonds on the University's statement of net assets during the 2009-10 fiscal year. This change affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

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, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 9 and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on pages 38 and 39 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

David W. Martin, CPA
February 21, 2011

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, 2010, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

FINANCIAL HIGHLIGHTS

The University's assets totaled $1.3 billion at June 30, 2010. This balance reflects a $91.4 million, or 7.3 percent increase from June 30, 2009, primarily due to the completion of new buildings. Liabilities increased from June 30, 2009, by $24 million, or 8.1 percent, totaling $319 million at June 30, 2010, primarily due to an increase in capital improvement debt for a new parking garage. As a result, the University's net assets increased by $67.5 million, reaching a year-end balance of $1 billion.

The University's operating revenues totaled $350 million for the 2009-10 fiscal year, representing a 6.1 percent increase over the 2008-09 fiscal year primarily due to an increase in student tuition and fees, net of scholarship allowances. Operating expenses totaled $678 million for the 2009-10 fiscal year, representing an increase of 3.8 percent over the 2008-09 fiscal year primarily due to an increase in scholarships, fellowships, and waivers. Capital appropriations decreased from the prior year by $68 million.

THE STATEMENT OF NET ASSETS

The statement of net assets reflects the assets and liabilities of the University using the accrual basis of accounting and presents the financial position of the University at a specified time. The difference between total assets and total liabilities, net assets, is one indicator of the University's current financial condition. The changes in net assets that occur over time indicate improvement or deterioration in the University's financial condition.

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

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

	2010	2009	
Assets			
Current Assets	$ 462,784	$ 466,675	(1)
Capital Assets, Net	790,835	706,149	
Other Noncurrent Assets	85,320	74,686	(1)
Total Assets	1,338,939	1,247,510	
Liabilities			
Current Liabilities	77,329	75,617	(1)
Noncurrent Liabilities	241,431	219,165	(1)
Total Liabilities	318,760	294,782	
Net Assets			
Invested in Capital Assets, Net of Related Debt	622,708	558,276	(1)
Restricted	138,225	199,708	(1)
Unrestricted	259,246	194,744	
Total Net Assets	$ 1,020,179	$ 952,728	

Note: (1) Balances for the fiscal year ended June 30, 2009, have been restated to reflect the change in reporting $44.8 million of State University System Capital Improvement Trust Fund Revenue Bonds. See notes 2, 3, and 9 to the financial statements.

Total assets as of June 30, 2010, increased by $91.4 million, or 7.3 percent. Net capital assets increased by $84.7 million primarily due to $102.3 million of completed buildings and construction work in progress, and $34.1 million in other fixed asset purchases net of retirements, less current year depreciation expense of $51.7 million. Significant construction activity during the year included the completion of the Burnett Biomedical Sciences Center and the following projects currently in progress: (1) Medical School, (2) Arts Complex II (3) Partnership III Building, and (4) Recreation and Wellness Center.

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

The statement of revenues, expenses, and changes in net assets presents the University's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the University's activity for the 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
Operating Revenues	$ 349,671	$ 329,507
Operating Expenses	677,689	652,900
Operating Loss	(328,018)	(323,393)
Net Nonoperating Revenues	370,665	345,821
Income Before Other Revenues, Expenses, Gains, or Losses	42,647	22,428
Other Revenues, Expenses, Gains, or Losses	24,804	95,437
Net Increase In Net Assets	67,451	117,865
Net Assets, Beginning of Year	907,977	790,112
Adjustment to Beginning Net Assets (1)	44,751	
Net Assets, Beginning of Year, as Restated	952,728	790,112
Net Assets, End of Year	$ 1,020,179	$ 907,977

Note: (1) As discussed in note 3 to the financial statements, the University's beginning net assets for the 2009-10 fiscal year was increased for a change in the reporting of State University System Capital Improvement Trust Fund Revenue Bonds.

During the 2009-10 fiscal year, the "Net Increase in Net Assets" decreased by $50.4 million over the prior fiscal year. The primary reason for the decrease was a $68 million reduction in State funded capital appropriations. This decrease in capital funding was offset by an increase of $26.3 million in Federal and State student financial aid.

Operating Revenues

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

The following summarizes the operating revenues by source that were used to fund operating activities during the 2009-10 and 2008-09 fiscal years:

Operating Revenues (In Thousands)

	2009-10	2008-09
Net Tuition and Fees	$ 177,729	$ 150,750
Grants and Contracts	111,088	116,235
Sales and Services of Auxiliary Enterprises	50,261	46,141
Other	10,593	16,381
Total Operating Revenues	$ 349,671	$ 329,507

Total operating revenues increased $20.2 million, or 6.1 percent. Net student tuition and fees increased 17.9 percent. The increase was due to both an increase in enrollment of approximately 5 percent as well as an increase in the University's tuition and fee rates of approximately 14 percent.

Operating Expenses

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

The following summarizes the operating expenses by natural classifications for the 2009-10 and 2008-09 fiscal years:

Operating Expenses
(In Thousands)

	2009-10	2008-09
Compensation and Employee Benefits	$ 410,218	$ 405,626
Services and Supplies	119,387	121,945
Utilities and Communications	21,100	20,522
Scholarships, Fellowships, and Waivers	75,270	57,266
Depreciation	51,714	47,541
Total Operating Expenses	$ 677,689	$ 652,900

Scholarships, Fellowships, and Waivers increased $18 million, or 31.4 percent, primarily due to increased Federal Pell grants to students.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2009-10 and 2008-09 fiscal years:

Nonoperating Revenues (Expenses)
(In Thousands)

	2009-10	2008-09
State Appropriations	$ 249,905	$ 277,934
Federal and State Student Financial Aid	127,347	101,029
State Appropriated American Recovery and Reinvestment Act Funds	19,029	
Investment Income	5,389	8,899
Other Nonoperating Revenues	2,299	181
Gain (Loss) on Disposal of Capital Assets	94	(1,530)
Interest on Capital Asset-Related Debt	(8,660)	(8,612)
Other Nonoperating Expenses	(24,738)	(32,080)
Net Nonoperating Revenues	$ 370,665	$ 345,821

The decrease in State appropriations of $28 million as a result of the State of Florida's weak economy was partially offset by $19 million in State Appropriated American Recovery and Reinvestment Act Funds. Federal and State student financial aid increased $26.3 million, primarily due to increases in Federal Pell grant funding.

Other Revenues, Expenses, Gains, or Losses

This category is composed of capital appropriations and capital grants, contracts, and donations. The following summarizes the University's other revenues, expenses, gains, or losses for the 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
Capital Appropriations	$ 16,557	$ 84,530
Capital Grants, Contracts, and Donations	8,247	10,907
Total	$ 24,804	$ 95,437

Capital appropriations decreased from the prior fiscal year by $68 million because the State decreased funding.

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 2009-10 and 2008-09 fiscal years:

Condensed Statement of Cash Flows
(In Thousands)

	2009-10	2008-09
Cash Provided (Used) by:		
Operating Activities	$ (267,677)	$ (277,801)
Noncapital Financing Activities	377,549	358,181
Capital and Related Financing Activities	(37,884)	(91,291)
Investing Activities	(155,190)	114,817
Net Increase (Decrease) in Cash and Cash Equivalents	(83,202)	103,906
Cash and Cash Equivalents, Beginning of Year	185,534	81,628
Cash and Cash Equivalents, End of Year	$ 102,332	$ 185,534

Major sources of funds came from State appropriations ($269.8 million), net student tuition and fees ($178.9 million), grants and contracts ($113.1 million), Federal and State student financial aid ($127.6 million), and sales and services of auxiliary enterprises ($49 million). Major uses of funds were for payments made to and on behalf of employees totaling ($401.5 million), payments to suppliers ($139.6 million), and payments to and on behalf of students for scholarships and fellowships ($75.3 million).

Cash and cash equivalents decreased $83.2 million from June 30, 2009 as a result of the University investing cash balances into several investment accounts during the 2009-10 fiscal year to provide diversification and security.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2010, the University had $1,285.5 million in capital assets, less accumulated depreciation of $494.7 million, for net capital assets of $790.8 million. Depreciation charges for the current fiscal year totaled $51.7 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30
(In Thousands)

	2010	2009
Land	$ 9,685	$ 9,685
Buildings	531,881	439,841
Construction in Progress	119,777	131,448
Infrastructure and Other Improvements	34,370	34,519
Furniture and Equipment	54,551	49,206
Library Resources	27,610	27,387
Leasehold Improvements	10,439	11,150
Works of Art and Historical Treasures	828	867
Property Under Capital Lease		64
Other Capital Assets	1,694	1,982
Capital Assets, Net	$ 790,835	$ 706,149

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, 2010, were incurred on the following projects: Medical School, Arts Complex II, Partnership III Building, Recreation and Wellness Center, Public Safety Building, Career Resource Building, and Thermal Energy Storage Facility. The University's major capital commitments at June 30, 2010, are as follows:

	Amount (In Thousands)
Total Committed	$ 149,568
Completed to Date	(119,778)
Balance Committed	$ 29,790

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

DEBT ADMINISTRATION

As of June 30, 2010, the University had $191.6 million in outstanding capital improvement debt payable, bonds payable, loans and notes payable, and installment purchases payable, representing an increase of $14 million, or 7.9 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)

	2010	2009
Capital Improvement Debt Payable (1)	$ 125,689	$ 115,921
Bonds Payable (1)	60,000	60,000
Loans and Notes Payable	4,900	
Installment Purchases Payable	997	1,613
Capital Leases Payable		31
Total	$ 191,586	$ 177,565

Note: (1) The University reclassifed certain Bonds Payable to Capital Improvement Debt Payable to report as collaterilized debt. See notes 2, 3, and 9 to the financial statements.

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 initial University operating budget adopted by the Florida Legislature for the 2010-11 fiscal year was $463.8 million, which included $23.6 million budgeted for the medical school. There was no additional budget allocated for enrollment growth this year.

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, University Controller, University of Central Florida, 12424 Research Parkway, Suite 300, Orlando, Florida 32826-3249.

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2010

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 83,604,209	$ 63,968,478
Investments	271,082,437	4,130,345
Accounts Receivable, Net	31,217,411	7,170,751
Loans and Notes Receivable, Net	471,220	
Due from State	70,842,199	
Due from Component Units	2,369,314	648,868
Due from University		4,253,698
Inventories	2,106,581	
Other Current Assets	1,090,800	1,938,313
Total Current Assets	462,784,171	82,110,453
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	18,727,726	285,758
Restricted Investments	38,171,840	115,928,521
Loans and Notes Receivable, Net	6,463,191	2,779,804
Depreciable Capital Assets, Net	661,077,126	300,159,398
Nondepreciable Capital Assets	129,757,874	51,396,348
Due from Component Units	10,353,876	282,850
Other Noncurrent Assets	11,603,516	11,546,306
Total Noncurrent Assets	876,155,149	482,378,985
TOTAL ASSETS	$ 1,338,939,320	$ 564,489,438
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 9,438,077	$ 4,657,813
Construction Contracts Payable	18,779,216	
Salaries and Wages Payable	17,620,251	
Deposits Payable	5,895,075	
Due to Component Units	4,253,698	648,868
Due to University		2,369,314
Deferred Revenue	10,560,433	10,216,781
Other Current Liabilities	399,618	10,218,867
Long-Term Liabilities - Current Portion:		
Capital Improvement Debt Payable	6,175,000	
Bonds Payable	1,075,000	
Certificates of Participation Payable		5,910,000
Loans and Notes Payable		2,956,125
Installment Purchases Payable	506,183	
Capital Leases Payable		21,444
Compensated Absences Payable	2,626,764	148,935
Total Current Liabilities	77,329,315	37,148,147

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2010

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Capital Improvement Debt Payable	$ 119,513,745	$
Bonds Payable	58,925,000	
Certificates of Participation Payable		292,000,043
Loans and Notes Payable	4,900,000	32,519,637
Installment Purchases Payable	490,514	
Capital Leases Payable		20,895
Compensated Absences Payable	30,207,781	769,288
Other Postemployment Benefits Payable	10,810,000	
Due to University		10,353,876
Due to Component Units		282,850
Other Noncurrent Liabilities	16,584,335	2,418,172
Total Noncurrent Liabilities	241,431,375	338,364,761
TOTAL LIABILITIES	318,760,690	375,512,908
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	622,707,953	35,661,471
Restricted for Nonexpendable:		
Endowment		108,635,351
Restricted for Expendable:		
Debt Service	80,438	
Loans	3,162,987	
Capital Projects	81,165,890	
Other	53,815,710	24,482,883
Unrestricted	259,245,652	20,196,825
TOTAL NET ASSETS	1,020,178,630	188,976,530
TOTAL LIABILITIES AND NET ASSETS	$ 1,338,939,320	$ 564,489,438

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, 2010

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $79,379,752	$ 177,728,730	$
Federal Grants and Contracts	82,794,181	
State and Local Grants and Contracts	11,325,197	
Nongovernmental Grants and Contracts	16,968,520	
Sales and Services of Auxiliary Enterprises	50,261,181	
Royalties and Licensing Fees		11,347,864
Gifts and Donations		3,314,774
Interest on Loans and Notes Receivable	153,680	
Other Operating Revenues	10,439,118	86,589,743
Total Operating Revenues	349,670,607	101,252,381
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	410,218,123	11,716,855
Services and Supplies	119,387,076	72,109,403
Utilities and Communications	21,100,150	
Scholarships, Fellowships, and Waivers	75,269,238	
Depreciation	51,713,881	10,587,624
Total Operating Expenses	677,688,468	94,413,882
Operating Income (Loss)	(328,017,861)	6,838,499
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	249,905,189	
Federal and State Student Financial Aid	127,346,911	
State Appropriated American Recovery and Reinvestment Act Funds	19,028,697	
Investment Income	5,388,468	1,085,887
Other Nonoperating Revenues	2,298,718	19,407,889
Gain on Disposal of Capital Assets	94,362	
Interest on Capital Asset-Related Debt	(8,660,150)	(13,300,634)
Other Nonoperating Expenses	(24,737,737)	(3,913,444)
Net Nonoperating Revenues	370,664,458	3,279,698
Income Before Other Revenues, Expenses, Gains, or Losses	42,646,597	10,118,197
Capital Appropriations	16,557,413	
Capital Grants, Contracts, Donations, and Fees	8,246,959	
Additions to Permanent Endowments		1,928,695
Increase in Net Assets	67,450,969	12,046,892
Net Assets, Beginning of Year	907,977,139	176,929,638
Adjustment to Beginning Net Assets	44,750,522	
Net Assets, Beginning of Year, as Restated	952,727,661	176,929,638
Net Assets, End of Year	$ 1,020,178,630	$ 188,976,530

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, 2010

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	$ 178,880,743
Grants and Contracts	113,115,576
Sales and Services of Auxiliary Enterprises	49,049,966
Interest on Loans and Notes Receivable	126,521
Payments to Employees	(401,537,577)
Payments to Suppliers for Goods and Services	(139,603,982)
Payments to Students for Scholarships and Fellowships	(75,269,238)
Net Repayments on Loans Issued to Students	645,556
Other Operating Receipts	6,915,458
Net Cash Used by Operating Activities	(267,676,977)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	250,746,625
Federal and State Student Financial Aid	127,605,862
State Appropriated American Recovery and Reinvestment Act Funds	19,028,697
Net Change in Funds Held for Others	(1,381,297)
Other Nonoperating Disbursements	(18,450,634)
Net Cash Provided by Noncapital Financing Activities	377,549,253
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	19,991,334
Capital Appropriations	79,645,168
Capital Grants, Contracts, and Donations	15,040,910
Capital Subsidies and Transfers	(4,536,363)
Other Receipts for Capital Projects	75,549
Purchase or Construction of Capital Assets	(133,028,612)
Principal Paid on Capital Debt and Leases	(6,236,952)
Interest Paid on Capital Debt and Leases	(8,835,608)
Net Cash Used by Capital and Related Financing Activities	(37,884,574)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(160,998,527)
Investment Income	5,808,320
Net Cash Used by Investing Activities	(155,190,207)
Net Decrease in Cash and Cash Equivalents	(83,202,505)
Cash and Cash Equivalents, Beginning of Year	185,534,440
Cash and Cash Equivalents, End of Year	$ 102,331,935

UNIVERSITY OF CENTRAL FLORIDA
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STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2010

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (328,017,861)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	51,713,881
Change in Assets and Liabilities:	
Receivables, Net	3,384,094
Inventories	(112,924)
Other Assets	(10,910)
Accounts Payable	746,751
Salaries and Wages Payable	1,504,973
Compensated Absences Payable	1,582,574
Deferred Revenue	(4,310,647)
Other Postemployment Benefits Payable	5,593,000
Other Liabilities	250,092
NET CASH USED BY OPERATING ACTIVITIES	$ (267,676,977)

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, 2010

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 13 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 *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, the University is a component unit of the State of Florida, and its financial balances and activity are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Blended Component Unit. Based on the application of the criteria for determining component units, the UCF Finance Corporation (Corporation) is included within the University reporting entity as a blended component unit. The purpose of the Corporation is to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University.

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following direct-support organizations (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011) are included within the University reporting entity as discretely presented component units. These legally separate, not-for-profit, corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

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

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

An annual audit of each organization's financial statements is conducted by independent certified public accountants. The annual report is submitted to the Auditor General and the University Board of Trustees. Additional information on the University's discretely presented component units, including copies of audit reports, is available by contacting the University 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 the Governmental Accounting Standards Board (GASB). The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

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

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

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

Significant interdepartmental sales between auxiliary service departments and other institutional departments have been accounted for as reductions of expenses and not revenues of those departments.

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation on capital assets. Nonoperating revenues include State appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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

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

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

Cash and Cash Equivalents – University. Amounts reported as cash and cash equivalents consist of cash on hand, cash in demand accounts, money market funds, and investments with original maturities of three months or less. The University's cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. The University also holds $80,751,555 in money market funds and short-term investments. The money market funds and investments are permissible under the current investment policy

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

and are rated AAA by Standard & Poor's. The Corporation, a blended component unit, holds $6,017,172 in money market funds. The money market funds are uninsured, but collateralized by securities held by the financial institutions, not in the name of the Corporation. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or purchase or construct capital or other restricted assets are classified as restricted.

Cash and Cash Equivalents - Discretely Presented Component Units. Amounts reported as cash and cash equivalents include: $20,102,501 of cash deposited in money market accounts that are not insured by Federal deposit insurance and are not collateralized, $14,952,100 deposited in money market funds that are uninsured and collateralized by securities held by the institution not in the component unit's name, and $9,262,319 invested in short-term guaranteed investment contracts that were purchased by the component unit to invest bond proceeds for various construction projects on campus.

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

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

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

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

2. REPORTING CHANGE

In prior fiscal years, the University reported the liability for Capital Improvement (Bookstore, Housing, Parking, and Health Center) Revenue Bonds issued by the Florida Board of Governors on behalf of the University as bonds payable on the statement of net assets. The Florida Board of Governors loaned the bond proceeds to the University for the stated capital improvement projects. Pursuant to an agreement with the Florida Board of Governors, revenues to be generated from the constructed facilities were pledged by the University to repay the bonds. Pursuant to GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, the liability for the Capital Improvement Revenue Bonds should be reported as collateralized borrowing. Accordingly, for the 2009-10 fiscal year, the University began reporting the outstanding liability for these bonds as capital improvement debt payable. This change affects the comparability of amounts reported as bonds payable and capital improvement debt payable on the statement of net assets for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

3. PRIOR PERIOD ADJUSTMENT

The University's beginning net assets was increased by $44,750,522 to recognize a change in reporting bonds payable for State University System Capital Improvement Trust Fund Revenue Bonds. In prior fiscal years the liability for these bonds was reported on the University's statement of net assets. It has subsequently been determined that these bonds are not debt of the University. Although proceeds from the bonds were provided to the University for capital projects, the University is not responsible for the repayment of the bonds. Repayment of the bonds is the responsibility of the Florida Board of Governors to be paid from capital improvement fees collected by all universities and remitted in total to the Florida Department of Education.

4. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees 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 Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the University's Board of Trustees as authorized by law. Investments set aside to make debt service

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The University's investments at June 30, 2010, are reported at fair value, as follows:

Investment Type	Amount
External Investment Pools:	
State Treasury Special Purpose Investment Account	$ 143,023,205
State Board of Administration Florida PRIME	1,134
State Board of Administration Fund B Surplus Funds Trust Fund	313
State Board of Administration Debt Service Accounts	1,382,683
Certificates of Deposit	42,691,551
United States Government and Federally-Guaranteed Obligations	31,086,064
Federal Agency Obligations	23,540,068
Bonds and Notes	24,252,354
Stocks and Other Equity Securities	31,436,087
Mutual Funds - Equities	11,840,818
Total University Investments	$ 309,254,277

Investments held by the University's component units at June 30, 2010, are reported at fair value as follows:

Investment Type	University of Central Florida Foundation, Inc.	University of Central Florida Research Foundation, Inc.	Total
Mutual Funds - Bonds	$ 41,908,415	$	$ 41,908,415
Mutual Funds - Equities	66,856,927	60,788	66,917,715
Fixed Pooled Investments	379,821		379,821
Hedge Funds Investment Pool	8,769,587		8,769,587
Private Equity Funds	75,368		75,368
Real Assets Fixed Income	1,149,139		1,149,139
Stocks and Other Equity Securities	545,371	313,450	858,821
Total Component Units Investments	$ 119,684,628	$ 374,238	$120,058,866

External Investment Pools

State Treasury Special Purpose Investment Account. The University reported investments at fair value totaling $143,023,205 at June 30, 2010, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of Af by Standard & Poor's and had an effective duration of 1.81 years at June 30, 2010. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

State Board of Administration Debt Service Accounts. The University reported investments at fair value totaling $1,382,683 at June 30, 2010, in the State Board of Administration (SBA) Debt Service Accounts. These investments are used to make debt service payments by the State Board of Education for the benefit

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

of the University. The University's investments consist of United States Treasury securities, with maturity dates of more than three months. 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

Section 218.415(23), Florida Statutes, authorizes the University to deposit surplus funds in accordance with conditions that are consistent with the Certificates of Deposit Account Registry Service program (CDARS). The CDARS program allows depositors with balances of up to $50 million to have their entire balance insured by the FDIC. At June 30, 2010, the University had $40 million on deposit with a qualified public depository bank to be invested as part of the CDARS program. The CDARS investments carry original maturity dates ranging from 13 weeks to 12 months with annual percentage interest rates between 1.26 and 2.01 percent.

The University and its discretely presented component units invested in various debt and equity securities, money market funds, mutual funds, and certificates of deposit. The following risks apply to the University 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, 2010, 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	$31,086,064	$2,578,689	$24,484,718	$ 4,022,657
Federal Agency Obligations	23,540,068	3,151,835	15,748,587	4,639,646
Bonds and Notes	24,252,354		20,448,770	3,803,584
Total University	$78,878,486	$5,730,524	$60,682,075	$12,465,887

Component Units' Debt Investments Maturities

Investment Type	Fair Value	Investments Maturities (In Years)		
		Less Than 1	1 - 5	More Than 5
Mutual Funds - Bonds	$41,908,415	$2,026,147	$23,543,419	$16,338,849
Fixed Pooled Investments	379,821	379,821		
Real Assets Fixed Income	1,149,139		1,149,139	
Total Component Units	$43,437,375	$2,405,968	$24,692,558	$16,338,849

UNIVERSITY OF CENTRAL FLORIDA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the United States government or obligations explicitly guaranteed by the United States government are not considered to have credit risk and do not require disclosure of credit quality. The University's investment policies limit fixed income exposure to investment grade assets and provide 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, 2010, of the University's and its component units' debt instruments using Standard & Poor's:

University Debt Investments Quality Ratings

Investment Type	Fair Value	AAA	AA	A	Less Than A or Not Rated	
Federal Agency Obligations	$23,540,068	$23,236,571	$	$	$ 303,497	(1)
Bonds and Notes	24,252,354	8,517,041	4,505,781	8,224,106	3,005,426	(2)
Total University	$47,792,422	$31,753,612	$ 4,505,781	$8,224,106	$3,308,923	

Component Units' Debt Investments Quality Ratings

Investment Type	Fair Value	AAA	AA	A	Less Than A or Not Rated
Mutual Funds - Bonds	$41,908,415	$18,051,771	$18,990,523	$2,018,332	$2,847,789
Fixed Pooled Investments	379,821	379,821			
Real Assets Fixed Income	1,149,139	1,149,139			
Total Component Units	$43,437,375	$19,580,731	$18,990,523	$2,018,332	$2,847,789

Notes: (1) These investments were not rated.
(2) Investments of $2,354,242 were not rated.

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

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

5. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2010, the University reported the following amounts as accounts receivable:

Description	Amount
Contracts and Grants	$ 17,271,620
Student Tuition and Fees	10,923,706
Other	3,022,085
Total Accounts Receivable, Net	**$ 31,217,411**

Loans and Notes Receivable. Loans and notes receivable represent all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs.

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts, and loans and notes receivable, are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of $905,929 and $411,562, respectively, at June 30, 2010.

6. DUE FROM STATE

This amount consists of $70,842,199 of Public Education Capital Outlay, Capital Improvement Fee Trust Fund, General Revenue, or other allocations due from the State for general operations or for the construction of University facilities.

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2010, is shown below:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 9,684,659	$	$	$ 9,684,659
Works of Art and Historical Treasures	295,750			295,750
Construction in Progress	131,448,261	92,050,551	103,721,347	119,777,465
Total Nondepreciable Capital Assets	$ 141,428,670	$ 92,050,551	$ 103,721,347	$ 129,757,874
Depreciable Capital Assets:				
Buildings	$ 635,085,799	$ 113,996,587	$ 669,815	$ 748,412,571
Infrastructure and Other Improvements	46,195,307	1,814,755		48,010,062
Furniture and Equipment	212,373,826	26,661,589	16,599,773	222,435,642
Library Resources	97,060,022	5,500,940	250,084	102,310,878
Leasehold Improvements	15,398,306	893,953		16,292,259
Property Under Capital Lease	92,328		92,328	
Works of Art and Historical Treasures	906,276	23,700	2,700	927,276
Other Capital Assets	17,176,500	400,342	208,855	17,367,987
Total Depreciable Capital Assets	1,024,288,364	149,291,866	17,823,555	1,155,756,675
Less, Accumulated Depreciation:				
Buildings	195,245,209	21,889,078	602,946	216,531,341
Infrastructure and Other Improvements	11,676,797	1,963,314		13,640,111
Furniture and Equipment	163,167,730	20,478,779	15,762,192	167,884,317
Library Resources	69,672,853	5,040,176	11,823	74,701,206
Leasehold Improvements	4,248,033	1,605,426		5,853,459
Property Under Capital Lease	28,008		28,008	
Works of Art and Historical Treasures	335,389	60,239	202	395,426
Other Capital Assets	15,194,510	676,869	197,690	15,673,689
Total Accumulated Depreciation	459,568,529	51,713,881	16,602,861	494,679,549
Total Depreciable Capital Assets, Net	$ 564,719,835	$ 97,577,985	$ 1,220,694	$ 661,077,126

8. DEFERRED REVENUE

Deferred revenue includes student tuition and fees received prior to fiscal year-end related to subsequent accounting periods, auxiliary prepayments, and contracts and grant prepayments. As of June 30, 2010, the University reported the following amounts as deferred revenue:

Description	Amount
Contract and Grant Prepayments	$ 6,790,596
Auxiliary Prepayments	2,936,884
Student Tuition and Fees	832,953
Total Deferred Revenue	$ 10,560,433

9. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2010, include capital improvement debt payable, bonds payable, loans and notes payable, installment purchases payable, compensated absences payable, other

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

postemployment benefits payable, and other noncurrent liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2010, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable (1)	$ 115,921,635	$ 14,995,000	$ 5,227,890	$ 125,688,745	$ 6,175,000
Bonds Payable (1)	60,000,000			60,000,000	1,075,000
Loans and Notes Payable		4,900,000		4,900,000	
Installment Purchases Payable	1,612,873		616,176	996,697	506,183
Capital Leases Payable	30,776		30,776		
Compensated Absences Payable	31,251,971	4,313,873	2,731,299	32,834,545	2,626,764
Other Postemployment Benefits Payable	5,217,000	7,149,000	1,556,000	10,810,000	
Other Noncurrent Liabilities	13,353,221	3,231,114		16,584,335	
Total Long-Term Liabilities	$ 227,387,476	$ 34,588,987	$ 10,162,141	$ 251,814,322	$ 10,382,947

Note: (1) The University recorded an adjustment to beginning net assets to recognize a change in the reporting of Bonds Payable for State University System Capital Improvement Trust Fund Revenue Bonds totaling $44,750,522, which was net of deferred charges of $225,400. The University also reclassified Capital Improvement Revenue Bonds totaling $115,921,635, which was net of deferred charges of $1,623,607, from bonds payable to capital improvement debt payable. See notes 2 and 3.

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2010:

Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Auxiliary Revenue Bonds:				
1992 - Housing	$ 19,080,000	$ 637,859	6.0	2013
1997 - Bookstore	3,570,000	1,684,000	5.0 - 5.125	2017
1997 - Parking Garage II	7,960,000	4,092,434	5.1 - 5.375	2018
1999 - Parking Garage III	8,435,000	5,063,033	4.2 - 4.75	2020
2000 - Housing	31,695,000	27,105,200	4.4 - 5.25	2031
2001 - Parking Garage IV	7,770,000	5,381,296	4.3 - 5.0	2022
2002 - Housing	14,055,000	10,163,585	3.1 - 4.5	2021
2004A - Student Health Center	8,000,000	6,184,879	4.0 - 5.0	2024
2004A - Parking Garage V	18,455,000	13,345,785	3.0 - 4.2	2024
2007A - Housing	38,780,000	36,963,166	4.0 - 5.5	2030
2010A - Parking Garage VI	3,855,000	3,927,508	4.0	2016
2010B - Parking Garage VI	11,140,000	11,140,000	4.5 - 6.2	2029
Total Capital Improvement Debt	$ 172,795,000	$ 125,688,745		

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

The capital improvement revenue bonds are payable solely from traffic and parking fees, housing rental revenues, bookstore revenues, and an assessed transportation and health fee on credit hours through 2031. The University has pledged a portion of these fees and revenues to repay $125,688,745 in capital improvement revenue bonds issued by the Florida Board of Governors on behalf of the University. Total principal and interest remaining on the debt is $186,337,985, and principal and interest paid for the current year totaled $11,318,045. During the 2009-10 fiscal year, operating revenues generated from traffic, parking

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and transportation fees; housing rental revenues; bookstore revenues; and health service facility fees totaled $15,974,775, $22,783,057, $1,705,060, and $14,681,033, respectively.

On February 24, 2010, the Board of Governors issued $3,855,000 Series 2010A Tax-Exempt Bonds and $11,140,000 Series 2010B Build America Bonds for the purpose of financing the costs of construction of the sixth parking facility on the main campus of the University.

The interest on the University Parking Facility Tax-Exempt Revenue Bonds Series 2010A, with rates ranging from 3 percent to 4 percent and a maturity date of July 1, 2016, are excluded from gross income of the holders for purposes of Federal income taxation. The interest on the University Parking Facility Taxable Build America Bonds Series 2010B, with rates ranging from 4.5 percent to 6.2 percent and a maturity date of July 1, 2029, are not excluded from gross income of the holders for purposes of Federal income taxation.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	$ 6,175,000	$ 5,992,330	$ 12,167,330
2012	6,430,000	5,730,993	12,160,993
2013	6,715,000	5,450,275	12,165,275
2014	6,995,000	5,160,854	12,155,854
2015	7,315,000	4,856,280	12,171,280
2016-2020	37,175,000	19,213,228	56,388,228
2021-2025	30,545,000	10,658,099	41,203,099
2026-2030	23,360,000	3,535,431	26,895,431
2031	2,070,000	51,750	2,121,750
Subtotal	126,780,000	60,649,240	187,429,240
Less: Net Discounts, Premiums and Losses on Bond Refundings	1,091,255		1,091,255
Total	$ 125,688,745	$ 60,649,240	$ 186,337,985

Bonds Payable. In the 2006-07 fiscal year, the Corporation issued $60 million in bonds payable, to finance the cost of the construction of the Burnett Biomedical Sciences Center, part of the University's medical school. The bonds are secured by a letter of credit issued by a local bank not to exceed $60 million. The bonds are variable interest rate bonds with an interest rate of 4.62 percent at June 30, 2010, and mature on July 1, 2037.

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

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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, 2010, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	$ 1,075,000	$ 2,625,600	$ 3,700,600
2012	1,130,000	2,578,558	3,708,558
2013	1,175,000	2,529,109	3,704,109
2014	1,240,000	2,477,691	3,717,691
2015	1,295,000	2,423,429	3,718,429
2016-2020	7,445,000	11,212,406	18,657,406
2021-2025	9,360,000	9,423,060	18,783,060
2026-2030	11,780,000	7,173,358	18,953,358
2031-2035	14,825,000	4,341,649	19,166,649
2036-2038	10,675,000	948,717	11,623,717
Total	$ 60,000,000	$ 45,733,577	$ 105,733,577

The Corporation entered into an interest rate swap agreement in connection with its $60 million variable-rate bond issuance as a means to lower its borrowing costs, when compared with fixed-rate bonds at the time of their issuance in June 2007. The Corporation utilizes such derivatives to manage the risk of rising interest rates on its variable interest rate based debt. The counterparty to the interest rate swap agreement is a regional bank. Credit loss from counterparty nonperformance is not anticipated. Under the 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 (0.25 percent at June 30, 2010). The variable-rate coupons of the bonds are reset weekly by auction. As of June 30, 2010, the Corporation was not exposed to credit risk on this swap agreement because it had a negative fair value of $9,719,500, which is reported as an other noncurrent liability on the statement of net assets. This liability reflects the theoretical settlement amount the Corporation would have to pay on June 30, 2010, to cancel the interest swap agreement. The liability is estimated based upon valuation models. If interest rates change and the fair value of the swap agreement becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. In accordance with the Corporation's policy to mitigate the potential for credit risk the Corporation requires that the fair value of the swap agreement be fully collateralized by a letter of credit if the counterparty's credit quality falls below AA/Aa.

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.

Loans and Notes Payable. In the 2006-07 fiscal year, the Corporation entered into two line of credit agreements of $6 million and $7 million with a local bank. The proceeds of the lines of credit were to be used for the construction of the University's medical school and the Burnett Biomedical Sciences Center. Both lines of credit were closed during the 2009-10 fiscal year.

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In the 2007-08 fiscal year, the Corporation entered into an additional line of credit agreement of $37 million with a local bank. During the 2009-10 fiscal year, this line of credit was terminated and a note was created for the $4.9 million outstanding amount. The proceeds of the note are to be used for the construction of a health facility for the University's medical school. The note carries a variable interest rate of 63.7 percent of one month LIBOR (0.351 percent at June 30, 2010) plus 1.35 percent and matures in July 2012. The Corporation is required to make interest only payments until the principal is due July 1, 2012. The note is collateralized by designated revenues for the payment of debt service. At June 30, 2010, the total outstanding balance of the note was $4,900,000.

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 appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2010, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled $32,834,545. The current portion of the compensated absences liability is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last three years calculated as a percentage of those years' total compensated absences liability.

Other Postemployment Benefits Payable. The University follows Governmental Accounting Standards Board Statement (GASB) 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

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2009-10 fiscal year, 450 retirees received postemployment healthcare benefits. The University provided required contributions of $1,556,000 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 $2,436,000.

Annual OPEB Cost and Net OPEB Obligation. The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation:

Description	Amount
Normal Cost (Service Cost for One Year)	$ 4,065,000
Amortization of Unfunded Actuarial Accrued Liability	2,775,000
Interest on Normal Cost and Amortization	274,000
Annual Required Contribution	7,114,000
Interest on Net OPEB Obligation	209,000
Adjustment to Annual Required Contribution	(174,000)
Annual OPEB Cost (Expense)	7,149,000
Contribution Toward the OPEB Cost	(1,556,000)
Increase in Net OPEB Obligation	5,593,000
Net OPEB Obligation, Beginning of Year	5,217,000
Net OPEB Obligation, End of Year	$10,810,000

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, 2010, and for the transition and preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	$		$
2007-08	4,096,000	34.1%	2,701,000
2008-09	3,850,000	38.9%	5,217,000
2009-10	7,149,000	21.8%	10,810,000

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $83,256,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $83,256,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $255,712,129 for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 32.6 percent.

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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.

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

The University's OPEB actuarial valuation as of July 1, 2009, used the entry-age cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and the University's 2009-10 fiscal year annual required contribution. 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. Initial healthcare cost trend rates for employees is 10.32 percent and 8.84 percent for the first two years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan and 10 percent for the first two years for all retirees in the Health Maintenance Organization (HMO) plan. The PPO and HMO healthcare trend rates are both 7 percent in the third year grading identically to 5.1 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, was 27 years.

Other Noncurrent Liabilities. Other noncurrent liabilities include the liability for the Federal Perkins Loan Program and for the liability for an interest rate swap agreement. The University participates in the Federal Perkins Loan Program. Under this program, the University receives Federal capital contributions, which 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 $6,864,835 at June 30, 2010.

As described previously in the Bonds Payable paragraph above, the University's blended component unit (Corporation) entered into an interest rate swap agreement in connection with its $60 million bond issuance. As of June 30, 2010, this interest rate swap agreement had a negative fair value of $9,719,500.

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

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of four residential housing towers, two adjacent parking facilities, as well as certain surrounding commercial retail space. Also during the 2005-06 fiscal year, the Convocation Corporation issued two additional certificates of participation to fund the acquisition, construction, and installation of a new convocation center, renovation of the existing University Arena and construction of related infrastructure. The outstanding balance of these certificates at June 30, 2010 is $232,960,000, before unamortized premium of $5,320,088.

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, 2010 is $59,095,000, before unamortized premium of $534,955. The certificates are secured by a pledge from the University of Central Florida Athletic Association, Inc., of gross ticket revenues, stadium club seat, and luxury suite contributions.

The University entered into support agreements with 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.

10. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the University are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability and death benefits, and annual cost-of-living adjustments.

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

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The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2009-10 fiscal year were as follows:

Class	Percent of Gross Salary Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Florida Retirement System, Special Risk	0.00	20.92
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled $8,566,603, $9,086,471, and $9,088,946, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 532 University participants during the 2009-10 fiscal year. Required contributions made to the PEORP totaled $1,964,588.

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

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

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The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant 10.43 percent of the participant's salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the university to the participant's annuity account.

There were 1,879 University participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled $15,247,076 and employee contributions totaled $6,270,196.

11. CONSTRUCTION COMMITMENTS

The University's major construction commitments at June 30, 2010, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
Medical School	$ 54,680,416	$ 52,749,523	$ 1,930,893
Arts Complex II	21,752,543	18,328,134	3,424,409
Partnership III Building	16,587,449	14,614,392	1,973,057
Recreation and Wellness Center	16,293,083	10,744,283	5,548,800
Parking Garage VI	14,206,477	1,513,970	12,692,507
Public Safety Building	8,941,255	8,167,576	773,679
Career Resource Building	6,974,171	4,162,850	2,811,321
Thermal Energy Storage Facility	4,558,818	4,558,818	(1)
Others	5,573,612	4,937,919	635,693
Total	$ 149,567,824	$ 119,777,465	$ 29,790,359

Note: (1) Asset to be placed in service early in the 2010-11 fiscal year.

12. OPERATING LEASE COMMITMENTS

The University leased buildings under operating leases, which expire in 2016. These leased assets and the related commitments are not reported on the University's statement of net assets. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for noncancelable operating leases are as follows:

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Fiscal Year Ending June 30	Amount
2011	$ 10,317,636
2012	10,389,440
2013	9,196,175
2014	3,559,153
2015	1,873,620
2016	353,637
Total Minimum Payments Required	$ 35,689,661

13. 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 automobile liability, Federal Civil Rights, and employment discrimination liability. During the 2009-10 fiscal year, for property losses, the State retained the first $2 million of losses for each occurrence with an annual aggregate retention of $40 million for named wind and flood losses and no annual aggregate retention for all other named perils. After the annual aggregate retention, losses in excess of $2 million per occurrence were commercially insured up to $40 million for named wind and flood through February 14, 2010, and increased to $58.75 million starting February 15, 2010. For perils other than named wind and flood, losses in excess of $2 million per occurrence were commercially insured up to $200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to $100,000 per person, and $200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three fiscal years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain healthcare services through participation in the State group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

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14. 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.

15. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of academic departments for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

Functional Classification	Amount
Instruction	$ 217,812,330
Research	97,892,225
Public Services	6,253,695
Academic Support	44,713,165
Student Services	30,711,345
Institutional Support	62,955,369
Operation and Maintenance of Plant	31,393,922
Scholarships and Fellowships	75,269,238
Depreciation	51,713,881
Auxiliary Enterprises	58,547,502
Loan Operations	425,796
Total Operating Expenses	$ 677,688,468

16. SEGMENT INFORMATION

A segment is defined as an identifiable activity (or grouping of activities) that has one or more bonds or other debt instruments outstanding with a revenue stream pledged in support of that debt. In addition, the activity's related revenues, expenses, gains, losses, assets, and liabilities are required to be accounted for separately. The following financial information for the University's Bookstore, Housing, Parking, and Health Services facilities represents identifiable activities for which one or more capital improvement debt instruments are outstanding:

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Condensed Statement of Net Assets

	Bookstore Capital Improvement Debt	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt	Health Services Facility Capital Improvement Debt
Assets				
Current Assets	$ 1,222,811	$ 7,639,456	$ 5,919,927	$ 3,146,849
Capital Assets, Net	3,068,406	73,478,307	42,740,729	9,333,938
Other Noncurrent Assets	565,124	3,759,885	20,438,084	1,625,831
Total Assets	4,856,341	84,877,648	69,098,740	14,106,618
Liabilities				
Current Liabilities	204,143	7,210,562	3,186,545	893,874
Noncurrent Liabilities	1,479,857	72,532,529	40,262,496	6,309,404
Total Liabilities	1,684,000	79,743,091	43,449,041	7,203,278
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,422,111	(466,603)	15,509,970	3,243,479
Restricted - Expendable	533,210	2,894,434	4,527,202	1,538,551
Unrestricted	1,217,020	2,706,726	5,612,527	2,121,310
Total Net Assets	$ 3,172,341	$ 5,134,557	$ 25,649,699	$ 6,903,340

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

	Bookstore Capital Improvement Debt	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt	Health Service Facility Capital Improvement Debt
Operating Revenues	$ 1,705,060	$ 22,783,057	$ 15,974,775	$ 14,681,033
Depreciation Expense	(152,683)	(3,593,237)	(1,668,942)	(477,947)
Other Operating Expenses	(434,419)	(11,508,942)	(8,328,727)	(11,996,772)
Operating Income	1,117,958	7,680,878	5,977,106	2,206,314
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	22,621	385,934	543,527	42,930
Interest Expense	(101,872)	(3,906,429)	(1,297,823)	(308,966)
Other Nonoperating Expense		(1,205,933)	(176,258)	(1,095)
Net Nonoperating Expenses	(79,251)	(4,726,428)	(930,554)	(267,131)
Income Before Other Revenues Expenses, Gains, or Losses	1,038,707	2,954,450	5,046,552	1,939,183
Other Revenue, Expenses, Gains, or Losses	(772,726)	(966,351)	(996,008)	(210,843)
Increase in Net Assets	265,981	1,988,099	4,050,544	1,728,340
Net Assets, Beginning of Year	2,906,360	3,146,458	21,599,155	5,175,000
Net Assets, End of Year	$ 3,172,341	$ 5,134,557	$ 25,649,699	$ 6,903,340

UNIVERSITY OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Condensed Statement of Cash Flows

	Bookstore Capital Improvement Debt	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt	Health Service Facility Capital Improvement Debt
Net Cash Provided (Used) by:				
Operating Activities	$ 1,240,780	$ 11,368,826	$ 7,608,901	$ 2,858,118
Noncapital Financing Activities	(772,727)	(1,944,231)	(1,040,050)	(714,145)
Capital and Related Financing Activities	(393,646)	(8,124,284)	9,027,693	(697,364)
Investing Activities	(594,572)	(4,341,400)	(18,813,485)	(1,925,170)
Net Decrease in Cash and Cash Equivalents	(520,165)	(3,041,089)	(3,216,941)	(478,561)
Cash and Cash Equivalents, Beginning of Year	941,196	5,792,266	6,050,592	1,589,265
Cash and Cash Equivalents, End of Year	$ 421,031	$ 2,751,177	$ 2,833,651	$ 1,110,704

17. COMPONENT UNITS

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

	University of Central Florida Foundation, Inc.	University of Central Florida Research Foundation, Inc.	UCF Athletics Association, Inc.	UCF Convocation Corporation	Golden Knights Corporation	Total
Condensed Statement of Net Assets						
Assets:						
Current Assets	$ 31,615,353	$ 6,877,806	$ 5,891,261	$ 28,680,651	$ 9,045,382	$ 82,110,453
Capital Assets, Net	75,372,687	12,934,350	16,585,812	191,671,963	54,990,934	351,555,746
Other Noncurrent Assets	118,970,216	374,238	282,850	9,430,859	1,765,076	130,823,239
Total Assets	225,958,256	20,186,394	22,759,923	229,783,473	65,801,392	564,489,438
Liabilities:						
Current Liabilities	6,435,843	5,349,670	12,377,608	10,414,875	2,570,151	37,148,147
Noncurrent Liabilities	35,319,330		11,045,388	233,345,088	58,654,955	338,364,761
Total Liabilities	41,755,173	5,349,670	23,422,996	243,759,963	61,225,106	375,512,908
Net Assets:						
Invested in Capital Assets, Net of Related Debt	43,358,129		8,930,210	(12,962,847)	(3,664,021)	35,661,471
Restricted	125,235,766				7,882,468	133,118,234
Unrestricted	15,609,188	14,836,724	(9,593,283)	(1,013,643)	357,839	20,196,825
Total Net Assets	$ 184,203,083	$ 14,836,724	$ (663,073)	$ (13,976,490)	$ 4,576,286	$ 188,976,530
Condensed Statement of Revenues, Expenses, and Changes in Net Assets						
Operating Revenues	$ 28,917,921	$ 5,206,774	$ 35,690,477	$ 28,243,265	$ 3,193,944	$ 101,252,381
Operating Expenses	(34,227,699)	(5,062,793)	(32,144,862)	(20,313,394)	(2,665,134)	(94,413,882)
Operating Income (Loss)	(5,309,778)	143,981	3,545,615	7,929,871	528,810	6,838,499
Net Nonoperating Revenues (Expenses)	3,863,734	13,172,165	(3,483,700)	(10,389,640)	117,139	3,279,698
Other Revenues, Expenses, Gains, and Losses	1,928,695					1,928,695
Increase (Decrease) in Net Assets	482,651	13,316,146	61,915	(2,459,769)	645,949	12,046,892
Net Assets, Beginning of Year	183,720,432	1,520,578	(724,988)	(11,516,721)	3,930,337	176,929,638
Net Assets, End of Year	$ 184,203,083	$ 14,836,724	$ (663,073)	$ (13,976,490)	$ 4,576,286	$ 188,976,530

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

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

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

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

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

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

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Legislative Auditing Committee

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

We have audited the financial statements of the University of Central Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2010, which collectively comprise the University's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the blended and aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Respectfully submitted,

David W. Martin, CPA
February 21, 2011