

# UNIVERSITY OF CENTRAL FLORIDA

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## Financial Audit

For the Fiscal Year Ended  
June 30, 2009



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Members of the Board of Trustees and President who served during the 2008-09 fiscal year are listed below:

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Notes: (1) Faculty Senate chair.  
(2) Student body president.  
(3) Not yet approved by the Florida Senate.

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

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

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UNIVERSITY OF CENTRAL FLORIDA  
TABLE OF CONTENTS

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

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## EXECUTIVE SUMMARY

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### 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, 2009. 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, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the University are included in our report No. 2010-115.

### Audit Methodology

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of Central Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2009, which collectively comprise the University's basic financial statements as shown on pages 11 through 40. 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 of the blended component unit represent 5.4 percent of the total assets, and 19.7 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 on the financial statements, insofar as it relates to the amounts included for these entities, 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, 2009, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued 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.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 10, and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on page 41, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



David W. Martin, CPA  
March 22, 2010

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2009, 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 \$1.2 billion at June 30, 2009. This balance reflects a \$117.6 million, or 10.4 percent, increase from the 2007-08 fiscal year, resulting from the completion of new buildings, an increase in construction work in progress, and an increase in amounts due from the State for construction projects. While assets grew, liabilities decreased by \$0.3 million, or 0.1 percent, totaling \$339.7 million at June 30, 2009, compared to \$340 million at June 30, 2008. As a result, the University's net assets increased by \$117.9 million, reaching a year-end balance of \$908 million.

The University's operating revenues totaled \$329.5 million for the 2008-09 fiscal year, representing a 13.1 percent increase over the 2007-08 fiscal year. Student tuition and fees, net of scholarship allowances, increased by \$21.9 million, or 17 percent. The increase was due to both an increase in enrollment of 3.2 percent as well as an

increase in the University's tuition and fee rates of 10 percent. Grants and contract revenues increased by \$7 million, or 6.4 percent, primarily due to increased Federal and private grants. Operating expenses totaled \$652.9 million for the 2008-09 fiscal year representing an increase of 4.1 percent over the 2007-08 fiscal year. Compensation and benefits increased \$12.6 million, or 3.2 percent, primarily due to a 1.5 percent increase in the number of employees and bonus and merit increases of \$5.5 million. Scholarship and fellowship expenses increased \$7.9 million, or 16.1 percent, due to an increase of approximately 3 percent of students receiving scholarships.

### THE STATEMENT OF NET ASSETS

The statement of net assets reflects the assets and liabilities of the University, categorized as current and noncurrent 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)

	2009	2008
<b>Assets</b>		
Current Assets	\$ 466,691	\$ 362,778
Capital Assets, Net	706,149	628,837
Other Noncurrent Assets	74,895	138,520
<b>Total Assets</b>	<b>1,247,735</b>	<b>1,130,135</b>
<b>Liabilities</b>		
Current Liabilities	77,831	88,935
Noncurrent Liabilities	261,927	251,088
<b>Total Liabilities</b>	<b>339,758</b>	<b>340,023</b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	539,142	480,871
Restricted	174,091	168,169
Unrestricted	194,744	141,072
<b>Total Net Assets</b>	<b>\$ 907,977</b>	<b>\$ 790,112</b>

Total current assets as of June 30, 2009, increased by \$103.9 million while other noncurrent assets decreased by \$63.6 million from June 30, 2008. The primary reason for the net increase in current assets is due to a \$37 million increase in amounts due from the State and from the UCF Foundation, Inc., for the funding of construction projects. The balance of the increase in current assets is mostly attributable to an increase in cash and investments of \$64.2 million, which is offset by a decrease in noncurrent cash and investments of \$65.4 million. Overall cash and investments decreased by \$1.2 million. The change in composition of cash and investments is primarily due to

decisions to diversify and secure the University's cash and investment balances and due to the use of funds classified as noncurrent to support the funding of capital assets.

Net capital assets increased by \$77.3 million primarily due to \$94.5 million of completed buildings and construction work in progress, \$30.3 million in other fixed asset purchases net of retirements, less current year depreciation expense of \$47.5 million. Significant construction activity during the year included the completion of Phase I of the Physical Science Building and the following projects currently in progress: (1) Burnett Biomedical Sciences Center, (2) Medical School, and (3) Arts Complex II.

### 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 2008-09 and 2007-08 fiscal years:

<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets (In Thousands)</b>		
	2008-09	2007-08
Operating Revenues	\$ 329,507	\$ 291,414
Operating Expenses	652,900	627,251
<b>Operating Loss</b>	(323,393)	(335,837)
Net Nonoperating Revenues	345,821	366,566
<b>Income Before Other Revenues, Expenses, Gains, or Losses</b>	22,428	30,729
Other Revenues, Expenses, Gains, or Losses	95,437	94,222
<b>Net Increase In Net Assets</b>	117,865	124,951
Net Assets, Beginning of Year	790,112	665,161
<b>Net Assets, End of Year</b>	\$ 907,977	\$ 790,112

During the 2008-09 fiscal year, the "Net Increase in Net Assets" decreased by \$7.1 million over the prior year. Operating, nonoperating, and other revenues increased \$26.2 million, or 3.3 percent, primarily as a result of an increase in net student tuition and fees of \$21.9 million. Operating and other expenses increased by \$33.3 million, or 5 percent, with the increases mainly attributable to an increase in compensation and benefits of \$12.6 million and an increase in scholarships and fellowships of \$7.9 million.

### 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 2008-09 and 2007-08 fiscal years:

<b>Operating Revenues</b> (In Thousands)		
	<u>2008-09</u>	<u>2007-08</u>
Net Tuition and Fees	\$ 150,750	\$ 128,836
Grants and Contracts	116,235	109,232
Sales and Services of Auxiliary Enterprises	46,141	47,964
Other	<u>16,381</u>	<u>5,382</u>
<b>Total Operating Revenues</b>	<u><u>\$ 329,507</u></u>	<u><u>\$ 291,414</u></u>

### 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 2008-09 and 2007-08 fiscal years:

<b>Operating Expenses</b> (In Thousands)		
	<u>2008-09</u>	<u>2007-08</u>
Compensation and Employee Benefits	\$ 405,626	\$ 393,017
Services and Supplies	121,945	119,780
Utilities and Communications	20,522	18,103
Scholarships, Fellowships, and Waivers	57,266	49,325
Depreciation	<u>47,541</u>	<u>47,026</u>
<b>Total Operating Expenses</b>	<u><u>\$ 652,900</u></u>	<u><u>\$ 627,251</u></u>

### 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 2008-09 and 2007-08 fiscal years:

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

	<u>2008-09</u>	<u>2007-08</u>
State Appropriations	\$ 277,934	\$ 291,315
Federal and State Student Financial Aid	101,029	88,942
Investment Income	8,899	14,671
Other Nonoperating Revenues	181	6,198
Loss on Disposal of Capital Assets	(1,530)	(1,759)
Interest on Capital Asset-Related Debt	(8,612)	(10,673)
Other Nonoperating Expenses	<u>(32,080)</u>	<u>(22,128)</u>
<b>Net Nonoperating Revenues</b>	<b><u>\$ 345,821</u></b>	<b><u>\$ 366,566</u></b>

State appropriations decreased by \$13.4 million as a result of the State of Florida's weak economy. Federal and State student financial aid increased \$12.1 million primarily due to increases in Federal Pell Grant funding and the State of Florida's Bright Futures Scholarship program.

**Other Revenues, Expenses, Gains, or Losses**

This category is mainly composed of capital appropriations and capital grants, contracts, and donations. The following summarizes the University's other revenues, expenses, gains, or losses for the 2008-09 and 2007-08 fiscal years:

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

	<u>2008-09</u>	<u>2007-08</u>
Capital Appropriations	\$ 84,530	\$ 73,145
Capital Grants, Contracts, and Donations	<u>10,907</u>	<u>21,077</u>
<b>Total</b>	<b><u>\$ 95,437</u></b>	<b><u>\$ 94,222</u></b>

Capital appropriations increased \$11.4 million primarily due to an increase in funding for the Physical Science and Partnership III capital projects offset by a decrease in funding for the medical school project. Capital grants, contracts, and donations decreased \$10.2 million from the prior year primarily due to a decrease in donations for the construction of the medical school.

**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 2008-09 and 2007-08 fiscal years:

<b>Condensed Statement of Cash Flows (In Thousands)</b>		
	<u>2008-09</u>	<u>2007-08</u>
Cash Provided (Used) by:		
Operating Activities	\$ (277,801)	\$ (285,911)
Noncapital Financing Activities	358,181	369,144
Capital and Related Financing Activities	(91,291)	(32,542)
Investing Activities	<u>114,817</u>	<u>22,106</u>
<b>Net Increase in Cash and Cash Equivalents</b>	103,906	72,797
Cash and Cash Equivalents, Beginning of Year	<u>81,628</u>	<u>8,831</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 185,534</u></u>	<u><u>\$ 81,628</u></u>

Major sources of funds came from State appropriations (\$272.5 million), net student tuition and fees (\$148.2 million), grants and contracts (\$115.5 million), Federal and State student financial aid (\$101 million), and sales and services of auxiliary enterprises (\$47.5 million). Major uses of funds were payments made to and on behalf of employees (\$399.2 million), payments to suppliers (\$143.6 million), and payments to and on behalf of students for scholarships (\$57.3 million).

Cash and cash equivalents increased from June 30, 2008, as a result of the liquidation of investments holdings in the State Treasury Special Purpose Investment Accounts (SPIA). The purpose of the liquidation plan was to place cash balances in several depository institutions, providing security and diversification of those balances. Overall, the University's total cash and investment balances stayed fairly consistent between the 2007-08 and 2008-09 fiscal years.

### **CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION**

#### **CAPITAL ASSETS**

At June 30, 2009, the University had \$1,165.7 million in capital assets, less accumulated depreciation of \$459.6 million, for net capital assets of \$706.1 million. Depreciation charges for the current fiscal year totaled \$47.5 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)**

	2009	2008
Land	\$ 9,685	\$ 9,685
Buildings	439,841	428,022
Construction in Progress	131,448	67,394
Infrastructure and Other Improvements	34,519	32,100
Furniture and Equipment	49,206	52,267
Library Resources	27,387	25,973
Leasehold Improvements	11,150	10,815
Works of Art and Historical Treasures	867	434
Property Under Capital Leases	64	
Other Capital Assets	1,982	2,147
<b>Capital Assets, Net</b>	<b>\$ 706,149</b>	<b>\$ 628,837</b>

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, 2009, were incurred on the following projects: Burnett Biomedical Sciences Center, Medical School, Arts Complex II, Partnership III, Public Safety Building, Physical Science Building – Phase II, and Thermal Energy Storage Facility. The University's major capital commitments at June 30, 2009, are as follows:

	Amount (In Thousands)
Total Commitment	\$201,017
Completed to Date	(131,448)
<b>Balance Committed</b>	<b>\$ 69,569</b>

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

**DEBT ADMINISTRATION**

As of June 30, 2009, the University had \$222.5 million in outstanding bonds, capital leases, and installment purchase agreements, representing a decrease of \$2 million, or 0.9 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)**

	2009	2008
Bonds	\$ 220,898	\$ 216,091
Loans and Notes		6,100
Installment Purchases	1,613	2,317
Capital Leases	31	
<b>Total</b>	<b>\$ 222,542</b>	<b>\$ 224,508</b>

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

**ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

During 2005-06, the Florida State Board of Governors approved plans for a medical school at the University. The medical school opened in August 2009, and will have a major positive impact on the financial status of the University.

The condition of the State of Florida's economy has a direct effect on appropriations for higher education. State appropriations comprise 34.2 percent of total revenues (operating, nonoperating, and capital) at the University and are the largest source of funding.

The initial University operating budget adopted by the Florida Legislature for the 2009-10 fiscal year was \$425.6 million, which included a \$20 million appropriation 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, and financial statements and notes thereto, AND other required supplemental information, or requests for additional financial information should be addressed to the 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, 2009**

	<u>University</u>	<u>Component Units</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 146,621,611	\$ 64,157,693
Investments	138,256,395	27,283,439
Accounts Receivable, Net	33,973,606	9,622,523
Loans and Notes Receivable, Net	1,070,743	
Due from State	134,771,390	
Due from Component Units	8,748,553	866,652
Due from University		3,973,854
Inventories	1,993,657	
Other Current Assets	1,255,162	897,501
<b>Total Current Assets</b>	<u>466,691,117</u>	<u>106,801,662</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	38,912,829	1,909,307
Restricted Investments	10,334,173	93,342,093
Loans and Notes Receivable, Net	6,625,422	6,744,292
Depreciable Capital Assets, Net	564,719,835	297,601,175
Nondepreciable Capital Assets	141,428,670	49,379,696
Due from Component Unit	10,448,142	444,525
Other Noncurrent Assets	8,574,694	12,116,456
<b>Total Noncurrent Assets</b>	<u>781,043,765</u>	<u>461,537,544</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,247,734,882</u>	<u>\$ 568,339,206</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 9,371,805	\$ 4,570,342
Construction Contracts Payable	16,076,689	
Salaries and Wages Payable	17,844,069	
Deposits Payable	4,904,582	
Due to Component Units	3,973,854	866,652
Due to University		8,748,553
Deferred Revenue	14,871,080	10,657,957
Other Current Liabilities	352,265	10,762,024
Long-Term Liabilities - Current Portion:		
Bonds Payable	7,608,197	
Certificates of Participation Payable		5,695,000
Loans and Notes Payable		4,477,992
Installment Purchases Payable	609,575	
Capital Leases Payable	30,776	26,044
Compensated Absences Payable	2,187,582	58,763
<b>Total Current Liabilities</b>	<u>77,830,474</u>	<u>45,863,327</u>

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET ASSETS (Continued)  
June 30, 2009**

	<b>University</b>	<b>Component Units</b>
<b>LIABILITIES (Continued)</b>		
Noncurrent Liabilities:		
Bonds Payable	\$ 213,289,361	\$
Certificates of Participation Payable		299,377,070
Loans and Notes Payable		33,001,205
Installment Purchases Payable	1,003,298	
Capital Leases Payable		39,530
Compensated Absences Payable	29,064,389	638,502
Postemployment Healthcare Benefits Payable	5,217,000	
Due to University		10,448,142
Due to Component Unit		444,525
Other Noncurrent Liabilities	13,353,221	1,597,267
<b>Total Noncurrent Liabilities</b>	<b>261,927,269</b>	<b>345,546,241</b>
<b>TOTAL LIABILITIES</b>	<b>339,757,743</b>	<b>391,409,568</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	539,141,795	38,113,321
Restricted for Nonexpendable:		
Endowment		106,704,925
Restricted for Expendable:		
Debt Service	1,365	
Loans	3,204,222	
Capital Projects	125,344,344	
Other	45,541,428	27,200,700
Unrestricted	194,743,985	4,910,692
<b>TOTAL NET ASSETS</b>	<b>907,977,139</b>	<b>176,929,638</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,247,734,882</b>	<b>\$ 568,339,206</b>

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, 2009**

	<b>University</b>	<b>Component Units</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$70,367,685	\$ 150,749,747	\$
Federal Grants and Contracts	79,789,662	
State and Local Grants and Contracts	17,285,786	
Nongovernmental Grants and Contracts	19,159,352	
Sales and Services of Auxiliary Enterprises	46,141,359	
Royalties and Licensing Fees		10,978,551
Gifts and Donations		8,350,583
Interest on Loans and Notes Receivable	154,928	
Other Operating Revenues	16,226,554	49,963,707
<b>Total Operating Revenues</b>	<b>329,507,388</b>	<b>69,292,841</b>
<b>EXPENSES</b>		
Operating Expenses:		
Compensation and Employee Benefits	405,626,114	11,457,977
Services and Supplies	121,944,935	73,580,027
Utilities and Communications	20,521,499	
Scholarships, Fellowships, and Waivers	57,266,296	
Depreciation	47,541,084	10,308,916
<b>Total Operating Expenses</b>	<b>652,899,928</b>	<b>95,346,920</b>
<b>Operating Loss</b>	<b>(323,392,540)</b>	<b>(26,054,079)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations	277,933,756	
Federal and State Student Financial Aid	101,028,633	
Investment Income	8,899,580	1,372,314
Other Nonoperating Revenues	180,612	6,451,991
Loss on Disposal of Capital Assets	(1,529,825)	
Interest on Capital Asset-Related Debt	(8,611,782)	
Other Nonoperating Expenses	(32,080,197)	(14,771,379)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>345,820,777</b>	<b>(6,947,074)</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<b>22,428,237</b>	<b>(33,001,153)</b>
Capital Appropriations	84,530,216	
Capital Grants, Contracts, Donations, and Fees	10,906,464	
Additions to Permanent Endowments		2,946,605
<b>Increase (Decrease) in Net Assets</b>	<b>117,864,917</b>	<b>(30,054,548)</b>
<b>Net Assets, Beginning of Year</b>	<b>790,112,222</b>	<b>206,984,186</b>
<b>Net Assets, End of Year</b>	<b>\$ 907,977,139</b>	<b>\$ 176,929,638</b>

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, 2009**

	<b>University</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees, Net	\$ 148,190,671
Grants and Contracts	115,479,307
Sales and Services of Auxiliary Enterprises	47,512,667
Interest on Loans and Notes Receivable	130,566
Payments to Employees	(399,185,366)
Payments to Suppliers for Goods and Services	(143,610,494)
Payments to Students for Scholarships and Fellowships	(57,266,296)
Net Repayments on Loans Issued to Students	119,482
Other Operating Receipts	10,828,368
	<b>(277,801,095)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	272,546,713
Federal and State Student Financial Aid	101,028,633
Net Change in Funds Held for Others	(2,339,833)
Other Nonoperating Disbursements	(13,054,252)
	<b>358,181,261</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Capital Debt	11,911,024
Capital Appropriations	84,530,216
Capital Grants, Contracts, Donations, and Fees	69,693
Capital Subsidies and Transfers	(24,615,510)
Other Receipts for Capital Projects	1,758,333
Purchase or Construction of Capital Assets	(139,683,918)
Principal Paid on Capital Debt and Leases	(13,942,239)
Interest Paid on Capital Debt and Leases	(11,318,625)
	<b>(91,291,026)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Sale of Investments, Net	105,701,225
Investment Income	9,115,657
	<b>114,816,882</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>103,906,022</b>
Cash and Cash Equivalents, Beginning of Year	81,628,418
	<b>\$ 185,534,440</b>
	<b>\$ 185,534,440</b>

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF CASH FLOWS (Continued)  
For the Fiscal Year Ended June 30, 2009**

	<b>University</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (323,392,540)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	47,541,084
Change in Assets and Liabilities:	
Receivables, Net	(2,782,365)
Grants and Contracts Receivable	(755,494)
Interest Receivable	(24,363)
Inventories	(48,724)
Loans and Notes Receivable	236,800
Other Assets	(399,180)
Accounts Payable	(813,473)
Salaries and Wages Payable	1,791,124
Compensated Absences Payable	2,133,625
Deferred Revenue	(3,803,589)
Postemployment Healthcare Benefits Payable	2,516,000
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (277,801,095)</b>

**SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND  
RELATED FINANCING ACTIVITIES**

The loss on the disposal of capital assets of \$1,529,825 was reported on the statement of revenues, expenses, and changes in net assets, but is not considered a cash transaction for the statement of cash flows.

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, 2009**

**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 Statutes authorizes these

**UNIVERSITY OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

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.
- 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 Supplemental Information

**UNIVERSITY OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

**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.

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

The University follows FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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

**UNIVERSITY OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

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 to be 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**

Cash and cash equivalents consist of cash on hand, cash in demand accounts, and money market funds. Except as noted below, University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. The Corporation, a blended component unit, holds \$16,378,734 in money market funds that are not considered public deposits and are not subject to the qualified public depository requirement. 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 restricted cash and cash equivalents include guaranteed investment contracts and money market funds. The guaranteed investment contracts were purchased by the component units to invest bond proceeds for the various construction projects on campus.

**Capital Assets.** University capital assets consist of land, construction in progress, buildings, infrastructure and other improvements, furniture and equipment, leasehold improvements, library resources, works of art and historical treasures, property under capital lease, 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:

**UNIVERSITY OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

- 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

**Noncurrent Liabilities.** Noncurrent liabilities include principal amounts of bonds payable, installment purchases payable, capital leases payable, compensated absences payable, postemployment healthcare benefits payable, and other noncurrent liabilities that are not scheduled to be paid within the next fiscal year. Bonds payable are reported net of unamortized premium or discount and deferred losses on refundings. The University amortizes bond premiums and discounts over the life of the bonds 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 bonds using the straight-line method.

## 2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, 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. 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 payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The University's investments at June 30, 2009, are reported at fair value, as follows:

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

<u>Investment Type</u>	<u>Amount</u>
External Investment Pools:	
State Treasury Special Purpose Investment Account	\$ 98,589,119
State Board of Administration Local Government Surplus Funds Trust Fund	1,059
State Board of Administration Fund B Surplus Funds Trust Fund	390
Certificates of Deposit (CDARS)	50,000,000
<b>Total University Investments</b>	<b>\$ 148,590,568</b>

**External Investment Pools**

The University reported investments at fair value totaling \$98,589,119 at June 30, 2009, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor’s and had an effective duration of 1.84 years at June 30, 2009. 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.

**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 certificates of deposit depositors with balances of up to \$50 million to have their entire balances insured by the FDIC. During the 2008-09 fiscal year, the University deposited \$50 million with a qualified public depository bank to be invested as part of the CDARS program. The CDARS investments carry original maturity dates ranging from 12 months to 15 months with annual percentage interest rates between 1.99 and 4.25 percent.

**Component Units Investments**

Investments held by the University’s component units at June 30, 2009, are reported at fair value as follows:

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

<u>Investment Type</u>	University of Central Florida Foundation, Inc.	University of Central Florida Research Foundation, Inc.	Total
Mutual Funds - Bonds	\$ 51,352,497	\$	\$ 51,352,497
Mutual Funds - Equities	45,807,233	52,500	45,859,733
Equity Pooled Investments	14,606,736		14,606,736
Hedge Funds	5,530,160		5,530,160
Fixed Pooled Investments	2,180,497		2,180,497
Real Estate Assets - REITS	811,821		811,821
Stocks and Other Equity Securities	1,290	207,327	208,617
Private Equity Funds	75,471		75,471
<b>Total</b>	<b>\$ 120,365,705</b>	<b>\$ 259,827</b>	<b>\$ 120,625,532</b>

The vast majority of the component units' investments are those of the University of Central Florida Foundation, Inc. (Foundation). The Foundation's uncategorized investments, excluding mutual funds, are uninsured and registered in SunTrust Bank's nominee name as custodian for the Foundation, with securities held by the Foundation's agent in the Foundation's name. Mutual funds do not have specified securities and are held in book-entry form.

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

The following schedule represents average duration for debt instruments:

<u>Investment Type</u>	<u>Average Duration</u>	<u>Fair Value</u>
Bond Mutual Funds	Greater Than Five Years	\$ 1,905,083
Bond Mutual Funds	One to Five Years	44,337,242
Bond Mutual Funds	Less Than One Year	5,110,172
Real Estate Assets - REITS	Greater Than Five Years	811,821
<b>Total</b>		<b>\$ 52,164,318</b>

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following schedule represents the rating of the Foundation's debt instruments using Standard & Poor's, a nationally recognized statistical rating organization:

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

<u>Debt Security Type</u>	<u>Quality Rating</u>	<u>Fair Value</u>
Bond Mutual Funds	S&P AA	\$ 5,585,229
Bond Mutual Funds	S&P AA-	93,503
Bond Mutual Funds	S&P AA+	93,931
Bond Mutual Funds	S&P AA1/AA2	36,299,747
Bond Mutual Funds	S&P AAA	6,639,857
Bond Mutual Funds	S&P BA-	2,547,702
Bond Mutual Funds	S&P TSY-AAA	92,528
Real Estate Assets - REITS	S&P AA+	811,821
<b>Total</b>		<b><u><u>\$ 52,164,318</u></u></b>

*Custodial Credit Risk:* Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2009, the Foundation had no securities of this nature.

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Foundation's investment policy requires diversification of investment 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. Guidelines for individual sectors of the portfolio further indicate percentage limitations.

**3. 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, 2009, the University reported the following amounts as net accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 18,881,468
Student Tuition and Fees	12,439,755
Other	2,652,383
<b>Total Accounts Receivable, Net</b>	<b><u><u>\$ 33,973,606</u></u></b>

**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.

**UNIVERSITY OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

**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 \$1,561,536 and \$306,494, respectively, at June 30, 2009.

**4. DUE FROM STATE**

Due from State is the amount of Public Education Capital Outlay, General Revenue, Capital Improvement Fee Trust Fund, or other allocations due from the State for general operations or for the construction of University facilities.

**5. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2009, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 9,684,659	\$	\$	\$ 9,684,659
Works of Art and Historical Treasures	295,750			295,750
Construction in Progress	67,393,868	86,170,097	22,115,704	131,448,261
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 77,374,277</b>	<b>\$ 86,170,097</b>	<b>\$ 22,115,704</b>	<b>\$ 141,428,670</b>
<b>Depreciable Capital Assets:</b>				
Buildings	\$ 604,611,100	\$ 30,474,699	\$	\$ 635,085,799
Infrastructure and Other Improvements	41,947,256	4,248,051		46,195,307
Furniture and Equipment	203,411,336	21,081,402	12,118,912	212,373,826
Library Resources	91,166,906	6,009,751	116,635	97,060,022
Leasehold Improvements	13,620,492	1,777,814		15,398,306
Property Under Capital Lease		92,328		92,328
Works of Art and Historical Treasures	393,470	512,806		906,276
Other Capital Assets	16,865,066	500,339	188,905	17,176,500
<b>Total Depreciable Capital Assets</b>	<b>972,015,626</b>	<b>64,697,190</b>	<b>12,424,452</b>	<b>1,024,288,364</b>
<b>Less, Accumulated Depreciation:</b>				
Buildings	176,588,816	18,656,393		195,245,209
Infrastructure and Other Improvements	9,847,681	1,829,116		11,676,797
Furniture and Equipment	151,143,896	20,362,877	8,339,043	163,167,730
Library Resources	65,194,038	4,532,304	53,489	69,672,853
Leasehold Improvements	2,805,719	1,442,314		4,248,033
Property Under Capital Lease		28,008		28,008
Works of Art and Historical Treasures	254,738	80,651		335,389
Other Capital Assets	14,717,737	609,421	132,648	15,194,510
<b>Total Accumulated Depreciation</b>	<b>420,552,625</b>	<b>47,541,084</b>	<b>8,525,180</b>	<b>459,568,529</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 551,463,001</b>	<b>\$ 17,156,106</b>	<b>\$ 3,899,272</b>	<b>\$ 564,719,835</b>

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

**6. 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, 2009, the University reported the following amounts as deferred revenue:

<u>Description</u>	<u>Amount</u>
Contract and Grant Prepayments	\$ 10,045,264
Auxiliary Prepayments	3,967,280
Student Tuition and Fees	<u>858,536</u>
<b>Total Deferred Revenue</b>	<b><u><u>\$ 14,871,080</u></u></b>

**7. LONG-TERM LIABILITIES**

Long-term liabilities of the University at June 30, 2009, include bonds payable, loans and notes payable, installment purchases payable, capital leases payable, compensated absences payable, postemployment healthcare benefits payable, and other noncurrent liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2009, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 216,090,957	\$ 12,103,766	\$ 7,297,165	\$ 220,897,558	\$ 7,608,197
Loans and Notes Payable	6,100,000		6,100,000		
Installment Purchases Payable	2,317,218		704,345	1,612,873	609,575
Capital Leases Payable		92,328	61,552	30,776	30,776
Compensated Absences Payable	29,300,833	3,777,576	1,826,438	31,251,971	2,187,582
Postemployment Healthcare Benefits Payable	2,701,000	2,516,000		5,217,000	
Other Noncurrent Liabilities	4,403,123	8,950,098		13,353,221	
<b>Total Long-Term Liabilities</b>	<b><u><u>\$ 260,913,131</u></u></b>	<b><u><u>\$ 27,439,768</u></u></b>	<b><u><u>\$ 15,989,500</u></u></b>	<b><u><u>\$ 272,363,399</u></u></b>	<b><u><u>\$ 10,436,130</u></u></b>

Details of significant long-term liabilities are discussed in subsequent notes.

**Revenue Bonds Payable.** The University had the following bonds payable outstanding at June 30, 2009:

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

Bond Type and Series	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
<b>Auxiliary Revenue Bonds:</b>				
1992 - Housing	\$ 19,080,000	\$ 857,145	6.0	2013
1997 - Bookstore	3,570,000	1,878,143	4.95 - 5.125	2017
1997 - Parking Garage II	7,960,000	4,495,639	5.0 - 5.375	2018
1999 - Parking Garage III	8,435,000	5,462,259	4.10 - 4.75	2020
1999 - Housing	28,140,000	640,000	5.00	2010
2000 - Housing	31,695,000	27,804,709	4.4 - 5.25	2031
2001 - Parking Garage IV	7,770,000	5,712,629	4.2 - 5.0	2022
2002 - Housing	14,055,000	10,695,944	3.1 - 4.5	2021
2004A - Student Health Center	8,000,000	6,501,537	4.0 - 5.0	2024
2004A - Parking Garage V	18,455,000	14,336,555	3.0 - 4.2	2024
2007A - Housing	38,780,000	37,537,075	4.25 - 5.50	2030
<b>Total Auxiliary Revenue Bonds</b>	<u>185,940,000</u>	<u>115,921,635</u>		
<b>State University System Revenue Bonds:</b>				
1997A Series	3,191,043	2,158,756	4.75 - 5.0	2016
1998 Series	11,156,956	7,570,296	4.4 - 5.0	2023
2001 Series	5,857,239	4,606,504	4.0 - 5.0	2026
2003A Series	6,580,959	2,739,181	5.0	2013
2005A Series	1,569,530	1,295,328	3.625 - 4.125	2022
2006A Series	15,483,742	14,780,247	4.0 - 5.0	2030
2008A Series	12,103,766	11,825,611	4.0 - 6.5	2033
<b>Total State University System Revenue Bonds</b>	<u>55,943,235</u>	<u>44,975,923</u>		
<b>Capital Improvement Revenue Bonds</b>				
2007 - Health Sciences Campus	60,000,000	60,000,000	4.38	2038
<b>Total</b>	<u>\$ 301,883,235</u>	<u>\$ 220,897,558</u>		

Note: (1) Includes unamortized bond discounts and premiums, and deferred losses on refunding issues.

Auxiliary revenue bonds were issued to construct student parking garages, housing facilities, a bookstore, and a health center. Auxiliary revenue bonds outstanding, which include both term and serial bonds, are secured by a pledge of traffic and parking fees, housing rental revenues, bookstore revenues, and an assessed transportation fee based on credit hours.

State University System revenue bonds were issued to acquire and construct various University facilities. These bonds are secured and payable from capital improvement and building fees, which are remitted to the State Board of Education to be used to retire the bonds. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of sinking fund resources, and compliance with reserve requirements.

**UNIVERSITY OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

In the 2007-08 fiscal year, the University deposited with an escrow agent, in an irrevocable trust, amounts sufficient to meet the debt service requirements of certain University of Central Florida Housing Revenue Bonds, Series 1999. These defeased bonds are not reported as outstanding debt on the University's statement of net assets. Debt considered defeased at June 30, 2009, totaled \$23,770,000; \$1,250,000 of the 1999 revenue bonds were not defeased, and \$640,000 remained outstanding at June 30, 2009.

On January 14, 2009, the State Board of Education issued \$60 million of University System Improvement Revenue Bonds Series 2008A with interest rates ranging from 4 to 6.5 percent. The maturity dates range from 2009 to 2033. The University's portion of the bonds, \$12,103,766, is to be used for the expansion of the Recreation and Wellness Center and construction of the Career Services and Experimental Learning Center and others.

In the 2007-08 fiscal year, the University agreed to lease to its blended component unit, the UCF Finance Corporation (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 a capital lease where the Corporation will lease the facilities to the University for the occupancy of the facility.

In the 2006-07 fiscal year, the Corporation issued capital improvement bonds totaling \$60 million for 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 7.53 percent at June 30, 2009, and mature on July 1, 2037. 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.

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 entered into an interest rate swap in connection with its \$60 million variable-rate bond issuance. The swap hedges its exposure to interest rate risk. The swap is intended to effectively change the Corporation's variable interest rate on the bonds to a synthetic fixed rate. The bonds and the related swap agreement mature on July 1, 2037, and the swap's notional amount of \$60 million matches the \$60 million variable-rate bonds. The swap was entered at the same time the bonds were issued in June 2007. Under the swap, 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

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

(0.35 percent at June 30, 2009). The variable-rate coupons of the bonds are reset weekly by auction. As of June 30, 2009, the Corporation was not exposed to credit risk on this swap because it had a negative fair value of \$6,507,353, which is reported as another noncurrent liability on the statement of net assets. This liability reflects the theoretical settlement amount the Corporation would have to pay on June 30, 2009, to cancel the interest rate swap agreement. However, if interest rates change and the fair value of the swap become positive, the Corporation would have a gross exposure to credit risk in the amount of the derivatives' 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 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.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 7,608,197	\$ 10,334,873	\$ 17,943,070
2011	9,018,914	10,011,650	19,030,564
2012	9,420,043	9,618,838	19,038,881
2013	9,814,014	9,199,152	19,013,166
2014	9,559,506	8,762,958	18,322,464
2015-1019	50,575,378	37,084,622	87,660,000
2020-2024	48,645,841	25,119,896	73,765,737
2025-2029	39,337,584	14,276,653	53,614,237
2030-2034	24,327,256	5,814,095	30,141,351
2035-2038	13,920,000	1,558,778	15,478,778
<b>Subtotal</b>	<b>222,226,733</b>	<b>131,781,515</b>	<b>354,008,248</b>
Less: Net Bond Discounts, Premiums, and Losses on Bond Refundings	<u>1,329,175</u>		<u>1,329,175</u>
<b>Total</b>	<b><u>\$ 220,897,558</u></b>	<b><u>\$ 131,781,515</u></b>	<b><u>\$ 352,679,073</u></b>

**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 are to be used for the construction of the University's medical school and the Burnett Biomedical Sciences Center. The lines of credit carry a variable interest rate equal to 63.7 percent of one month LIBOR (0.316 percent at June 30, 2009) plus 1.35 percent, and both mature in April 2012.

**UNIVERSITY OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

In the 2007-08 fiscal year, the Corporation entered into an additional line of credit agreement of \$37 million with a local bank. The proceeds of the line of credit are to be used for the construction of the University's medical school. The line of credit carries a variable interest rate of 63.7 percent of one month LIBOR (0.316 percent at June 30, 2009) plus 1.35 percent and matures in July 2012.

The lines are collateralized by designated revenues for the payment of debt service. At June 30, 2009, there were no outstanding balances on the lines of credit. The Corporation had \$50 million available remaining on its line of credit agreements at June 30, 2009.

**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, 2009, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$31,251,971. 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.

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

*Plan Description.* Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer defined-benefit plan. 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

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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.* Benefit provisions are pursuant to 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 2008-09 fiscal year, 225 retirees received postemployment healthcare benefits. The University provided required contributions of \$1,497,000 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 \$2,201,000.

*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 Governmental Accounting Standards Board 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:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 1,993,000
Amortization of Unfunded Actuarial Accrued Liability	1,694,000
Interest on Normal Cost and Amortization	<u>147,000</u>
<b>Annual Required Contribution</b>	<b>3,834,000</b>
Interest on Net OPEB Obligation	115,000
Adjustment to Annual Required Contribution	<u>(99,000)</u>
<b>Annual OPEB Cost (Expense)</b>	<b>3,850,000</b>
Contribution Toward the OPEB Cost	<u>(1,497,000)</u>
<b>Increase in Net OPEB Obligation</b>	<b>2,353,000</b>
Net OPEB Obligation, Beginning of Year	2,701,000
Actuarial Adjustment to Beginning Net OPEB Obligation	<u>163,000</u>
<b>Net OPEB Obligation, End of Year</b>	<b><u><u>\$ 5,217,000</u></u></b>

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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, 2009, 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

*Funded Status and Funding Progress.* As of July 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$49,113,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$49,113,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$262,327,138 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 18.7 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*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 initial OPEB actuarial valuation as of July 1, 2007, and updated as of July 1, 2008, used the entry-age cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2009, and the estimated 2008-09 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

**UNIVERSITY OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the University's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Initial healthcare cost trend rates for employees covered by Medicare was 9.1 percent, and was 9.6 percent for employees not covered by Medicare, grading to 5.5 percent in half-percent steps. 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, 2009, was 28 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 \$6,845,868 at June 30, 2009.

As described previously in note 7 to the financial statements, 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, 2009, this interest rate swap agreement had a negative fair value of \$6,507,353.

**Certificate of Participation Payable – Component Units.** During the 2004-05 and 2005-06 fiscal years, two certificates of participation were issued by the UCF Convocation Corporation to fund the construction of four residential housing towers, two adjacent parking facilities, 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, 2009 is \$237,715,000, before unamortized premium of \$5,685,618.

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, 2009 is \$61,100,000, before unamortized premium of \$571,452. 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

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

is unable to make the minimum payments on the bonds. The University is obligated only to the extent it has legally available revenues to cover the unpaid amounts.

**8. RETIREMENT PROGRAMS**

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

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2008-09 fiscal year were as follows:

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

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, 2007, June 30, 2008, and June 30, 2009, totaled \$8,281,310, \$8,566,603, and \$9,086,471, 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 529 University participants during the 2008-09 fiscal year. Required contributions made to the PEORP totaled \$1,841,986.

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.

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

**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.

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

There were 2,249 University participants during the 2008-09 fiscal year. Required employer contributions made to the Program totaled \$15,553,133 and employee contributions totaled \$6,648,252.

**9. CONSTRUCTION COMMITMENTS**

The University’s major construction commitments at June 30, 2009, are as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Burnett Biomedical Sciences Center	\$ 87,999,147	\$ 82,534,680	\$ 5,464,467
Medical School	50,579,528	34,429,376	16,150,152
Arts Complex II	21,168,163	3,828,896	17,339,267
Partnership III	16,668,208	1,333,266	15,334,942
Public Safety Building	9,099,414	934,714	8,164,700
Physical Science Building - Phase II	4,468,740	1,033,008	3,435,732
Thermal Energy Storage Facility	4,194,558	2,390,461	1,804,097
Others	6,839,015	4,963,860	1,875,155
<b>Total</b>	<b>\$ 201,016,773</b>	<b>\$ 131,448,261</b>	<b>\$ 69,568,512</b>

**10. OPERATING LEASE COMMITMENTS**

The University leased buildings under operating leases, which expire in 2016. These leased assets and the related commitments are not reported on the University’s statement of net assets. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

agreements are contingent upon future appropriations. Future minimum lease commitments for noncancelable operating leases are as follows:

Fiscal Year Ending June 30	Amount
2010	\$ 14,997,464
2011	3,659,525
2012	1,513,316
2013	441,427
2014	453,045
2015-2016	861,309
<b>Total Minimum Payments Required</b>	<b>\$ 21,926,086</b>

**11. RISK MANAGEMENT PROGRAMS**

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers’ compensation, general liability, and fleet automotive liability. During the 2008-09 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 \$50 million for named wind and flood. 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 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

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State’s group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

**12. 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.

**13. 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:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 216,461,580
Research	110,482,718
Public Services	1,100,277
Academic Support	42,635,549
Student Services	29,279,885
Institutional Support	64,035,887
Operation and Maintenance of Plant	28,664,409
Scholarships and Fellowships	57,266,296
Depreciation	47,541,084
Auxiliary Enterprises	55,173,466
Loan Operations	<u>258,777</u>
<b>Total Operating Expenses</b>	<b><u><u>\$ 652,899,928</u></u></b>

**14. 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

**UNIVERSITY OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

separately. The following financial information for the University's Bookstore, Housing, Parking, and Health Center facilities represents identifiable activities for which one or more bonds are outstanding:

**Condensed Statement of Net Assets**

	Bookstore Revenue Bonds	Housing Facility Revenue Bonds	Parking Facility Revenue Bonds	Health Center Revenue Bonds
<b>Assets</b>				
Current Assets	\$ 1,100,536	\$ 5,441,985	\$ 6,723,121	\$ 2,171,668
Capital Assets, Net	3,118,069	75,366,952	41,729,159	9,231,507
Other Noncurrent Assets	565,898	4,317,418	3,442,454	1,199,102
<b>Total Assets</b>	<b>4,784,503</b>	<b>85,126,355</b>	<b>51,894,734</b>	<b>12,602,277</b>
<b>Liabilities</b>				
Current Liabilities	194,143	6,684,120	2,276,375	776,053
Noncurrent Liabilities	1,684,000	75,295,777	28,019,204	6,651,224
<b>Total Liabilities</b>	<b>1,878,143</b>	<b>81,979,897</b>	<b>30,295,579</b>	<b>7,427,277</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	1,283,018	(1,221,325)	12,105,596	2,830,684
Restricted - Expendable	528,710	3,395,343	3,099,314	1,105,450
Unrestricted	1,094,632	972,440	6,394,245	1,238,866
<b>Total Net Assets</b>	<b>\$ 2,906,360</b>	<b>\$ 3,146,458</b>	<b>\$ 21,599,155</b>	<b>\$ 5,175,000</b>

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

	Bookstore Revenue Bonds	Housing Facility Revenue Bonds	Parking Facility Revenue Bonds	Health Center Revenue Bonds
Operating Revenues	\$ 1,930,613	\$ 19,357,578	\$ 14,832,079	\$ 13,419,904
Depreciation Expense	(152,254)	(3,480,160)	(1,617,175)	(455,703)
Other Operating Expenses	(437,209)	(11,388,482)	(7,177,260)	(11,316,591)
<b>Operating Income</b>	<b>1,341,150</b>	<b>4,488,936</b>	<b>6,037,644</b>	<b>1,647,610</b>
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	39,430	977,899	277,541	79,368
Interest Expense	(111,105)	(4,146,007)	(1,433,174)	(310,210)
Other Nonoperating Expense	(252,584)	(323,328)	(121,506)	(11,020)
<b>Net Nonoperating Expenses</b>	<b>(324,259)</b>	<b>(3,491,436)</b>	<b>(1,277,139)</b>	<b>(241,862)</b>
<b>Income Before Other Revenues, Expenses, Gains, or Losses</b>	<b>1,016,891</b>	<b>997,500</b>	<b>4,760,505</b>	<b>1,405,748</b>
Other Revenue, Expenses, Gains, or Losses	(781,855)	(675,642)	(383,839)	(700,909)
<b>Increase in Net Assets</b>	<b>235,036</b>	<b>321,858</b>	<b>4,376,666</b>	<b>704,839</b>
Net Assets, Beginning of Year	2,671,324	2,824,600	17,222,489	4,470,161
<b>Net Assets, End of Year</b>	<b>\$ 2,906,360</b>	<b>\$ 3,146,458</b>	<b>\$ 21,599,155</b>	<b>\$ 5,175,000</b>

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

**Condensed Statement of Cash Flows**

	Bookstore Revenue Bonds	Housing Facility Revenue Bonds	Parking Facility Revenue Bonds	Health Center Revenue Bonds
Net Cash Provided (Used) by:				
Operating Activities	\$ 1,557,221	\$ 9,695,556	\$ 7,213,925	\$ 1,961,394
Noncapital Financing Activities	(1,031,856)	(574,170)	(500,515)	(707,481)
Capital and Related Financing Activities	(294,861)	(12,137,040)	(4,747,594)	(719,860)
Investing Activities	562,346	7,344,726	3,196,144	823,550
<b>Net Increase in Cash and Cash Equivalents</b>	<b>792,850</b>	<b>4,329,072</b>	<b>5,161,960</b>	<b>1,357,603</b>
Cash and Cash Equivalents, Beginning of Year	148,346	1,463,194	888,632	231,662
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 941,196</b>	<b>\$ 5,792,266</b>	<b>\$ 6,050,592</b>	<b>\$ 1,589,265</b>

**15. 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
<b>Condensed Statement of Net Assets</b>						
Assets:						
Current Assets	\$ 54,596,337	\$ 6,715,691	\$ 6,500,438	\$ 31,035,599	\$ 7,953,597	\$ 106,801,662
Capital Assets, Net	76,080,334		17,026,467	197,082,118	56,791,952	346,980,871
Other Noncurrent Assets	102,196,493	259,827	444,525	9,810,367	1,845,461	114,556,673
<b>Total Assets</b>	<b>232,873,164</b>	<b>6,975,518</b>	<b>23,971,430</b>	<b>237,928,084</b>	<b>66,591,010</b>	<b>568,339,206</b>
Liabilities:						
Current Liabilities	14,594,159	5,454,940	13,085,820	10,799,187	1,929,221	45,863,327
Noncurrent Liabilities	34,558,573		11,610,598	238,645,618	60,731,452	345,546,241
<b>Total Liabilities</b>	<b>49,152,732</b>	<b>5,454,940</b>	<b>24,696,418</b>	<b>249,444,805</b>	<b>62,660,673</b>	<b>391,409,568</b>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	43,645,277		9,006,994	(10,599,450)	(3,939,500)	38,113,321
Restricted	126,387,282				7,518,343	133,905,625
Unrestricted	13,687,873	1,520,578	(9,731,982)	(917,271)	351,494	4,910,692
<b>Total Net Assets</b>	<b>\$ 183,720,432</b>	<b>\$ 1,520,578</b>	<b>\$ (724,988)</b>	<b>\$ (11,516,721)</b>	<b>\$ 3,930,337</b>	<b>\$ 176,929,638</b>
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>						
Operating Revenues	\$ 1,645,625	\$ 4,042,790	\$ 33,084,515	\$ 27,531,744	\$ 2,988,167	\$ 69,292,841
Operating Expenses	34,950,330	3,796,735	32,023,754	22,022,488	2,553,613	95,346,920
<b>Operating Income (Loss)</b>	<b>(33,304,705)</b>	<b>246,055</b>	<b>1,060,761</b>	<b>5,509,256</b>	<b>434,554</b>	<b>(26,054,079)</b>
Net Nonoperating Revenues (Expenses)	3,915,964	95,991	(1,202,376)	(9,279,304)	(477,349)	(6,947,074)
Other Revenues, Expenses, Gains, and Losses	2,946,605					2,946,605
<b>Increase (Decrease) in Net Assets</b>	<b>(26,442,136)</b>	<b>342,046</b>	<b>(141,615)</b>	<b>(3,770,048)</b>	<b>(42,795)</b>	<b>(30,054,548)</b>
Net Assets, Beginning of Year	210,162,568	1,178,532	(583,373)	(7,746,673)	3,973,132	206,984,186
<b>Net Assets, End of Year</b>	<b>\$ 183,720,432</b>	<b>\$ 1,520,578</b>	<b>\$ (724,988)</b>	<b>\$ (11,516,721)</b>	<b>\$ 3,930,337</b>	<b>\$ 176,929,638</b>

**UNIVERSITY OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

**16. SUBSEQUENT EVENTS**

On February 24, 2010, the Division of Bond Finance of the State Board of Administration issued University of Central Florida Parking Facility Revenue Bonds Series 2010A for \$3,855,000 and Series 2010B for \$11,140,000 on behalf of the University for financing a parking facility on the main campus of the University. The bonds are secured by the net revenues of the parking system of the University, which may include transaction access fees, parking decal fees, fines, special rental fees or other charges for parking services or parking spaces, and may additionally be secured by other revenues that are determined to be necessary and legally available.

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

Actuarial Valuation Date (1)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b) (2)	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 (1)	\$	\$ 52,106,000 49,113,000	\$ 52,106,000 49,113,000	0.0% 0.0%	\$ 255,646,117 262,327,138	20.4% 18.7%

Notes: (1) The most recent actuarial valuation was July 1, 2007. An update, dated October 14, 2008, took into account anticipated PPO cost increases, HMO cost increases, and retiree contribution increases used in the July 31, 2008, report on the Financial Outlook for the State Employees' Group Self-Insurance Trust Fund.

(2) The actuarial cost method used by the University is the entry-age actuarial cost method.



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

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

We have audited the basic 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, 2009, 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 *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

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

### **Compliance and Other Matters**

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

We noted certain matters that we reported to University management in our operational report No. 2010-115.

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  
March 22, 2010