UCF FINANCE CORPORATION
(A COMPONENT UNIT OF THE UNIVERSITY OF CENTRAL FLORIDA)

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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James Moore
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
UCF Finance Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the UCF Finance Corporation (the Corporation), a direct support organization and component unit of the University of Central Florida, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

James Moore & Co., P.L.

Gainesville, Florida
October 20, 2016

UCF FINANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the UCF Finance Corporation (the Corporation) for the fiscal years ended June 30, 2016 and 2015, 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 management. The MD&A contains financial activity of the Corporation for the fiscal years ended June 30, 2016, 2015, and 2014.

The Corporation is presented as a blended component unit of the University of Central Florida (the University) and was certified as a direct support organization in July 2007. The Corporation was formerly known as the UCF Health Facilities Corporation. The purpose of the Corporation is to assist in financing the construction of facilities located on the Health Sciences Campus at Lake Nona and other projects on behalf of the University. Facilities constructed through the Corporation are owned and operated by the University.

The Corporation assisted in financing the construction of the Burnett Biomedical Sciences Building and the College of Medicine's Medical Education Building during 2007. The Burnett facility, which houses on-going research in the biomedical field, was completed and began operations in May of 2009. The College of Medicine facility, which is home to the students accepted into the medical school, opened its doors to students in August 2009.

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the Corporation's basic financial statements include: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as promulgated by the Government Accounting Standards Board (GASB). See notes to the financial statements for a summary of the Corporation's significant accounting policies.

THE STATEMENT OF NET POSITION

The statement of net position reflects the assets, deferred outflows of resources, and liabilities of the Corporation, and it presents the financial position of the Corporation at a specified time. Assets, plus deferred outflows of resources, less liabilities equals net position, which is one indicator of the Corporation's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the Corporation's financial condition. Restricted net position consist of funds reserved by bond resolution and the annual letter of credit fee and can only be used for the specified purpose as set forth in the associated documents. Deferred outflow of resources reflect the current fair market value of the Corporation's interest rate swap agreement in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 72, *Fair Value Measurement and Application.* Fair market value is determined by a third party and calculated using interest rates and yield curves as the inputs in the valuation models.

The following summarizes the Corporation's total net position for fiscal years ended June 30:

Condensed Statements of Net Position
(For the Fiscal Years at June 30)

	2016	2015	2014
Assets			
Current Assets	$ 4,230,947	$ 4,737,708	$ 4,103,879
Noncurrent Assets	48,852,004	49,705,631	51,633,860
Total Assets	53,082,951	54,443,339	55,737,739
Deferred Outflows	18,102,762	13,107,659	11,219,057
Liabilities			
Current Liabilities	1,626,352	1,571,740	1,511,140
Noncurrent Liabilities	69,417,762	65,837,659	65,304,057
Total Liabilities	71,044,114	67,409,399	66,815,197
Net position			
Restricted	3,908,309	4,417,262	5,893,816
Unrestricted	(3,766,710)	(4,275,663)	(5,752,217)
Total Net position	$ 141,599	$ 141,599	$ 141,599

The Corporation's assets totaled $53.1 million at June 30, 2016. This balance reflects a $1.4 million, or 2.5 percent decrease from the prior fiscal year, primarily resulting from a decrease in restricted cash and cash equivalents. Liabilities increased by $3.6 million, or 5.4 percent, totaling $71.0 million at June 30, 2016, as compared to $67.4 million at June 30, 2015. The increase primarily resulted from an increase in the Corporation's interest rate swap liability. The Corporation's total net position remained unchanged resulting in a year-end balance of $0.1 million.

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statement of revenues, expenses, and changes in net position presents the Corporation'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. GASB Statement No. 35 categorizes revenues and expenses 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 majority of the Corporation's revenues and expenses are nonoperating revenues and expenses as defined by GASB.

On June 26, 2007, the Corporation entered into an operating lease with the University concurrent with the issuance of the Series 2007 $60 million variable-rate Capital Improvement Revenue Bonds, (the 2007 debt issue). In accordance with this agreement the University remits basic rent payments to the Corporation. Basic rent is defined as being equal to principal, interest, and other expenses incurred by the Corporation throughout the year. The Corporation records these payments as transfers from the University of Central Florida and classifies them as nonoperating revenues.

The following summarizes the Corporation's changes in net position for the fiscal years ended June 30:

Condensed Statements of Revenues, Expenses and Changes in Net Position (For the Fiscal Years Ended June 30)

	2016	2015	2014
Operating revenues	$ -	$ -	$ -
Operating expenses	188,308	200,024	190,304
Operating loss	(188,308)	(200,024)	(190,304)
Net nonoperating revenues	188,308	200,024	184,358
Decrease in net position	-	-	(5,946)
Net position, beginning of year	141,599	141,599	147,545
Net position, end of year	$ 141,599	$ 141,599	$ 141,599

Both operating expenses and nonoperating revenues for the year ended June 30, 2016 were substantially unchanged from the year ended June 30, 2015.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the Corporation's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the Corporation'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 Corporation. Cash flows from capital and related financing activities include changes associated with 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.

The Corporation's cash during fiscal year 2016 was invested in short term interest-bearing money market depository accounts. All investments are in compliance with the laws of the state and the investment policy of the University adopted by the Corporation. Cash and cash equivalents represent cash-on-hand, bank deposits, and liquid investments with a maturity of three months or less. The Corporation's cash inflows primarily represent transfers from the University in accordance with the operating lease agreement; cash outflows consist primarily of principal and interest payments related to the 2007 debt issue, and associated bank fees.

The following summarizes cash flows for the fiscal years ended June 30:

Condensed Statements of Cash Flows
(For the Fiscal Years Ended June 30)

	2016	2015	2014
Cash flows provided by (used in)			
Operating activities	$ (195,888)	$ (201,405)	$ (312,446)
Capital and related financing activities			
Payments on long term debt	(1,355,000)	(1,295,000)	(1,240,000)
Interest paid	(2,364,360)	(2,429,901)	(2,491,684)
Net transfers from University	3,284,498	2,431,533	3,763,846
Investing activities	116,828	19,268	11,950
Net decrease in cash	(513,922)	(1,475,505)	(268,334)
Cash and cash equivalents			
Beginning of year	4,615,228	6,090,733	6,359,067
End of year	$ 4,101,306	$ 4,615,228	$ 6,090,733

ECONOMIC OUTLOOK

The Corporation has added great value to the University's mission and its specific vision to construct a state of the art facility for biomedical research. In meeting its fiduciary obligation, the Corporation entered into a swap agreement concurrent with the 2007 debt issue to mitigate its risk to fluctuations in market rates. Because of inherent uncertainties in estimating the fair value of the rate swap agreement, it is at least reasonably possible that the Corporation's estimate will change in the near term. The fair value of the rate swap agreement will continue to increase or decrease over the term of the agreement in response to the Securities Industry and Financial Market Association (SIFMA) swap index, which is variable. As market conditions improve the Corporation's position on its swap agreement will also improve.

REQUEST FOR INFORMATION

These financial statements are designed to provide detailed information on the Corporation's operations to the Corporation's Board, management, investors, creditors, and all others with an interest in the Corporation's financial affairs and to demonstrate the Corporation's accountability for the assets it controls and funds it receives and expends. Questions concerning any of the information provided in this report or any requests for additional financial information should be addressed to Bert Francis, Assistant Controller, University of Central Florida, 12424 Research Parkway, Suite 300, Orlando, FL 32826-3249.

UCF FINANCE CORPORATION
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current assets		
Other assets	$ 129,641	$ 122,480
Restricted cash and cash equivalents	4,101,306	4,615,228
Total current assets	4,230,947	4,737,708
Noncurrent assets		
Due from the University of Central Florida	48,852,004	49,705,631
Total Assets	53,082,951	54,443,339
DEFERRED OUTFLOW OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	18,102,762	13,107,659
LIABILITIES		
Current liabilities		
Current portion, long-term debt	1,415,000	1,355,000
Accounts payable and accrued expenses	18,355	18,774
Interest payable	192,997	197,966
Total current liabilities	1,626,352	1,571,740
Noncurrent liabilities		
Long-term debt, less current portion	51,315,000	52,730,000
Interest rate swap	18,102,762	13,107,659
Total noncurrent liabilities	69,417,762	65,837,659
Total Liabilities	71,044,114	67,409,399
NET POSITION		
Restricted for:		
Debt service	3,744,336	4,244,304
Letter of credit	163,973	172,958
Unrestricted	(3,766,710)	(4,275,663)
Total Net Position	$ 141,599	$ 141,599

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

UCF FINANCE CORPORATION
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Operating revenues	$ -	$ -
Operating expenses		
Other	188,308	200,024
Operating loss	(188,308)	(200,024)
Nonoperating revenues (expenses)		
Interest income	116,828	17,569
Interest expense	(2,359,391)	(2,430,951)
Transfers from the University of Central Florida	2,430,871	2,756,895
Transfers to the University of Central Florida	-	(143,489)
Total nonoperating revenues (expenses)	188,308	200,024
Change in net position	-	-
Net position, beginning of year	141,599	141,599
Net position, end of year	$ 141,599	$ 141,599

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

UCF FINANCE CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities		
Payments to suppliers and others	$ (195,888)	$ (201,405)
Cash flows from capital and related financing activities		
Payments on long term debt	(1,355,000)	(1,295,000)
Interest paid	(2,364,360)	(2,429,901)
Net transfers from the University of Central Florida	3,284,498	2,431,533
Net cash used in capital and related financing activities	(434,862)	(1,293,368)
Cash flows from investing activities		
Interest income received	116,828	19,268
Net decrease in cash and cash equivalents	(513,922)	(1,475,505)
Cash and cash equivalents, beginning of year	4,615,228	6,090,733
Cash and cash equivalents, end of year	$ 4,101,306	$ 4,615,228
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (188,308)	$ (200,024)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Changes in assets and liabilities:		
Other assets	(7,161)	(931)
Accounts payable and accrued expenses	(419)	(450)
Net cash used in operating activities	$ (195,888)	$ (201,405)

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

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

(1) Summary of Significant Accounting Policies:

The following is a summary of the more significant accounting policies and practices of the UCF Finance Corporation (the Corporation), which affect significant elements of the accompanying financial statements:

(a) **Reporting entity**—The Corporation is a not-for-profit entity incorporated on February 1, 2007. The Corporation was created by the University of Central Florida (the University), as a direct support organization of the University whose purpose is to assist in financing the construction of facilities located on the Health Sciences campus at Lake Nona for and on behalf of the University. As a direct support organization and component unit of the University, the Corporation operates for the service and convenience of the University. The Corporation is also presented as a blended component unit of the University on the University's financial statements.

(b) **Financial statement presentation**—The Corporation's financial statements are presented in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*, as amended, which requires the Corporation to present:

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

(c) **Basis of accounting**—Basis of accounting refers to when revenues, expenses, and related assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 Corporation's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The Corporation follows GASB standards of accounting and financial reporting.

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. The statement of revenues, expenses and changes in net position is presented in a format which distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Corporation's ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The statement of cash flows is presented using the direct method in compliance with GASB standards of accounting and financial reporting.

(1) **Summary of Significant Accounting Policies**: (Continued)

(d) **Cash and cash equivalents**—Amounts reported as cash and cash equivalents consist of cash on hand, cash held by a trust institution and invested in money market funds, and investments with original maturities of three months or less. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

(e) **Fair value measurement**—The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset or liability. Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

(f) **Deferred outflows of resources**—The unrestricted net position includes the effect of recognizing a deferred outflow of resources for the change in the fair value on the interest rate swap agreement from year to year. Gains and losses realized upon settlement of these agreements are deferred until the underlying hedged instrument is settled.

(g) **Net position**—The Corporation's net position is classified as follows:

- Net investment in capital assets – This represents the Corporation's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included in this component of net position.

- Restricted net position – This represents the Corporation's resources that have constraints placed upon their use either by external donors or creditors or through laws, regulations or constraints imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets.

- Unrestricted net position – This represents Corporation resources which do not meet the definition of "restricted" or "net investment in capital assets."

There was no net investment in capital assets at June 30, 2016 and 2015. When both restricted and unrestricted net positions are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

(h) **Income taxes**—The Corporation is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying financial statements.

When required, the Corporation files income tax returns in the U.S. federal jurisdiction and in the state of Florida. The Corporation's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

The Corporation has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with accounting principles generally accepted in the United States of America for accounting for uncertainty in income taxes, and determined that there are no uncertain tax positions that would have a material impact on the financial statements of the Corporation.

(1) **Summary of Significant Accounting Policies**: (Continued)

(i) **Use of estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities along with disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) **Interest rate swap**—The Corporation makes limited use of derivative instruments for the purpose of managing interest rate risks. Interest rate swap agreements are used to convert the Corporation's variable rate long-term debt to a fixed rate. See Note 5 for additional description of the Corporation's swap agreement.

(2) Reporting Changes:

The Corporation implemented GASB Statement No.72, *Fair Value Measurement and Application*, which requires the Corporation to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value.

(3) Cash and Cash Equivalents:

The Corporation's restricted cash shown on the statement of net position represents cash held by the Corporation's trustee in the Corporation's name. These funds consist of funds held for debt service payments and letter of credit annual commitment fees. For the years ended June 30, 2016 and 2015, $3,937,333 and $4,442,270, respectively, were invested in a government money market fund through a national bank in accordance with the University's investment policy for managing credit risks, which the Corporation follows. The total value of cash and cash equivalents at June 30, 2016 and 2015 was $4,101,306 and $4,615,228, respectively.

Section 1011.42(5), Florida Statutes, authorizes universities and their component units to invest funds with the State Treasury and State Board of Administration, and requires that these entities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities and their component units are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees has adopted a written investment policy establishing investment parameters within applicable Florida Statutes and the University investment manual. Pursuant to Section 218.415(16), Florida Statutes, the Corporation is authorized to invest in the Florida PRIME investment pool administered by the State Board of Administration (SBA); interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the University's Board of Trustees as authorized by law. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Pursuant to Section 218.415(16), Florida Statutes, the Corporation's investments in securities must provide sufficient liquidity to pay obligations as they come due.

(3) **Cash and Cash Equivalents:** (Continued)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Money market funds are uninsured and collateralized by securities held by the institution, not in the Corporation's name. The University's investment policy limits fixed income exposure to investment grade assets and provides credit quality guidelines applicable to the investment objective. The University's investment policy and manual provides information on asset classes, target allocations, and ranges of acceptable investment categories.

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

(4) **Concentrations of Credit Risk:**

The Corporation has no policy requiring collateral or other security to support receivables from related parties. Related party receivables consist of amounts due from the University and are reflected in the accompanying statements of net position.

(5) **Derivative Instrument Activity:**

In June 2007, the Corporation entered into an interest rate swap in connection with its issuance of Series 2007, $60,000,000 of variable-rate Capital Improvement Revenue Bonds (the 2007 debt issue). The Corporation utilizes such derivatives to manage its exposure to interest rate risk. The Corporation does not enter into financial instruments for trading or speculative purposes. The swap is intended to effectively change the Corporation's variable interest rate on the bonds to a synthetic fixed rate. The notional amount of the swap is expected to match the principal amount on the associated bonds through the scheduled termination date of the swap on July 1, 2037. The variable-rate coupons of the bonds are reset weekly by the remarketing agent. Under the terms of the swap agreement, the Corporation pays the swap counterparty a fixed payment of 4.376 percent and receives a variable payment based on the Securities Industry and Financial Market Association (SIFMA) swap index. The resulting synthetic interest rate for the associated bonds is equal to the fixed amount paid plus the remarketed variable bond rate minus the variable SIFMA rate received. The notional amount of the derivative does not represent actual amounts exchanged by the parties and, thus, is not a measure of the exposure of the Corporation through its use of derivatives. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivative, such as interest rates or other financial indices. Because of inherent uncertainties in estimating the fair value of the rate swap agreement, it is at least reasonably possible that the Corporation's estimate will change in the near term. The fair value of the rate swap agreement will continue to increase or decrease over the term of the agreement in response to the SIFMA rate, which is variable.

(5) **Derivative Instrument Activity:** (Continued)

The $18,102,762 and $13,107,659 liability reflected on the statements of net position as interest rate swap reflects the theoretical settlement amount the Corporation would have to pay on June 30, 2016 and 2015, respectively, to cancel the interest rate swap agreement, which approximates the transfer value to a market participant. As of June 30, 2016 and 2015, the outstanding swap agreement met the criteria set forth under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as an effective hedging derivative instrument and hedge accounting was applied. The aggregate fair value is reflected on the statement of net position under noncurrent liabilities. The annual change in the fair value of the swap is reported as deferred outflow on the statement of net position. The fair value of the interest rate swap was estimated using an independent pricing service. This derivative instrument was valued using interest rates and yield curves that are observable at commonly quoted intervals as the inputs in the valuation models (Level 2 inputs).

Credit Risk: As of June 30, 2016 and 2015, the Corporation was not exposed to credit risk on the swap because it had a negative fair value. However, if interest rates change and the fair value of the swap becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. As of June 30, 2016, the swap counterparty was rated A3 and A- by Moody's and S&P, respectively. The Corporation and the swap counterparty may be required to post collateral, with a third party custodian under the terms of the swap agreement. As of June 30, 2016, collateralization was not required.

Termination Risk: The Corporation or the swap counterparty may terminate the swap if the other party fails to perform under the terms of the contract, such as the failure to make swap payments. If the swap is terminated, interest rate risk associated with the variable-rate bonds would no longer be hedged. Also, if at the time of termination the swap has negative fair value, the Corporation would be liable to the swap counterparty for a payment equal to the swap's fair value.

Rates for the swap and associated bonds were as follows at June 30:

	Terms	2016	2015
Interest Rate Swap:			
Fixed Rate Paid to Swap Counterparty	Fixed	4.376%	4.376%
Variable Rate Received from Swap Counterparty	SIFMA	(0.410%)	(0.050%)
Net Interest Rate Swap Rate		3.966%	4.326%
Remarketed Variable Bond Rate	Fixed	0.520%	0.140%
Synthetic Interest Rate Paid on Bonds		4.486%	4.466%

Derivative instrument activity for the fiscal year ended June 30, 2016, was as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value
Pay – fixed interest rate	Hedge of changes in fair value of the 2007 Series bonds	$52,730,000	7/1/2007	7/1/2037	Receive SIFMA, pay 4.376%	$ (18,102,762)

(5) **Derivative Instrument Activity:** (Continued)

Derivative instrument activity for the fiscal year ended June 30, 2015, was as follows:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value
Pay – fixed interest rate	Hedge of changes in fair value of the 2007 Series bonds	$54,085,000	7/1/2007	7/1/2037	Receive SIFMA, pay 4.376%	$ (13,107,659)

(6) **Long-term Obligations:**

As described above in Note 5, the Corporation issued Capital Improvement Revenue Bonds with an aggregate principal amount of $60,000,000, to assist in financing the University's construction of the Burnett Biomedical Sciences Building. The bonds mature on July 1, 2037 and are secured by the University's indirect cost revenues received by the University from Federal, State, and private grants and further secured by an irrevocable direct pay letter of credit issued by Fifth Third Bank of Central Florida. In accordance with the letter of credit, the Corporation is required to pay the bank an annual commitment fee. The fees incurred for the fiscal years ended June 30, 2016 and 2015, were $122,480 and $121,749, respectively.

The Corporation is a party to a contract for a derivative instrument, as discussed below and in Note 5.

At June 30, 2016, aggregate debt service requirements of the Corporation's debt and net payments (receipts) on related hedging derivative instruments are as follows:

Fiscal Year Ending June 30,	Bonds Payable Principal	Bonds Payable Interest	Interest Rate Swap	Net Cash Flows
2017	$ 1,415,000	$ 2,307,465	$ 58,003	$ 3,780,468
2018	1,490,000	2,245,544	56,447	3,791,991
2019	1,555,000	2,180,342	54,808	3,790,150
2020	1,630,000	2,112,295	53,097	3,795,392
2021	1,700,000	2,040,966	51,304	3,792,270
2022-2026	9,805,000	9,013,466	226,573	19,045,039
2027-2031	12,335,000	6,657,865	167,360	19,160,225
2032-2036	15,520,000	3,692,906	92,830	19,305,736
2037-2038	7,280,000	481,579	12,106	7,773,685
Totals	$ 52,730,000	$ 30,732,428	$ 772,528	$ 84,234,956

The above amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As rates vary, interest payments on variable-rate bonds and net receipts or payments on the hedging derivative instruments will vary. Note 5 provides detailed information on the Corporation's derivative instruments.

(6) **Long-term Obligations:** (Continued)

Changes in long-term debt for the year ended June 30, 2016, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable	$ 54,085,000	$ -	$ (1,355,000)	$ 52,730,000	$ 1,415,000
Total long-term debt	$ 54,085,000	$ -	$ (1,355,000)	$ 52,730,000	$ 1,415,000

Changes in long-term debt for the year ended June 30, 2015, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payable	$ 55,380,000	$ -	$ (1,295,000)	$ 54,085,000	$ 1,355,000
Total long-term debt	$ 55,380,000	$ -	$ (1,295,000)	$ 54,085,000	$ 1,355,000

(7) **Operating Lease:**

In June 2007, the Corporation entered into an operating lease with the University in which the University makes basic rent payments to the Corporation equal to principal, interest, and associated expenses incurred by the Corporation for the financing of facilities constructed on the Health Sciences Campus located at Lake Nona. Total payments received from the University under this agreement were $2,430,871 and $2,756,895 for the years ended June 30, 2016 and 2015, respectively, and are reflected as transfers from the University of Central Florida in the accompanying statement of revenues, expenses, and changes in net position.

(8) **Related Party Transactions:**

For the year ending June 30, 2016, there were no transfers to the University. For the year ending June 30, 2015, there were transfers to the University of $143,489 for construction. The University also transferred funds to the Corporation in accordance with the operating lease as discussed in Note 7. Transfers from the University were $2,430,871 and $2,756,895 for the years ended June 30, 2016 and 2015, respectively.

James Moore
Certified Public Accountants and Consultants

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

To the Board of Directors of
UCF Finance Corporation:

We have audited, 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, the financial statements of the UCF Finance Corporation (the Corporation), a direct support organization and component unit of the University of Central Florida (the University), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated October 20, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

James Moore & Co., P.L.

Gainesville, Florida
October 20, 2016