

**CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

**THE UNIVERSITY OF CENTRAL FLORIDA
RESEARCH FOUNDATION, INC., AND SUBSIDIARY
ORLANDO, FLORIDA**

JUNE 30, 2014 AND 2013

**CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

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RESEARCH FOUNDATION, INC., AND SUBSIDIARY
ORLANDO, FLORIDA**

JUNE 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The University of Central Florida
Research Foundation, Inc., and subsidiary
Orlando, Florida

Report on the Financial Statements

We have audited the accompanying consolidated statements of net position of The University of Central Florida Research Foundation, Inc., and subsidiary (the "Research Foundation") (a component unit of The University of Central Florida), as of June 30, 2014 and 2013, and the related consolidated statements of revenues, expenses, and changes in net position, cash flows and the related notes to the consolidated financial statements, which collectively comprise the Research Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Research Foundation as of June 30, 2014 and 2013, and the changes in the consolidated net position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other matters*Required Supplemental 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 consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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 August 19, 2014 on our consideration of the Research Foundation'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 Research Foundation's internal control over financial reporting and compliance.

Carole Riggs & DeBorja LLC

August 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The University of Central Florida Research Foundation's (the "Research Foundation") (a direct support organization of the University of Central Florida (the "University")) management prepared the following discussion and analysis of the Research Foundation's consolidated financial statements, as of and for the years ended June 30, 2014 and 2013. This discussion and analysis is intended to serve as an introduction to the Research Foundation's basic consolidated financial statements. It should be read in conjunction with the basic consolidated financial statements and notes thereof.

The report consists of the following:

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

The consolidated statements of net position present all of the Research Foundation's assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the Research Foundation is improving or declining.

The consolidated statements of revenues, expenses, and changes in net position explain whether revenues and other support exceed expenses, which results in an increase in net position, or whether there is a decrease in net position. All changes in net position are reported as soon as the underlying events, giving rise to the change occurs, regardless of the timing of related cash flows.

The consolidated statements of cash flows are another way of assessing the Research Foundation's financial viability. The primary purpose of the consolidated statements of cash flows is to provide relevant information about cash receipts and cash payments of the Research Foundation throughout the fiscal year.

These consolidated financial statements include all assets and liabilities using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and the pronouncements of the Governmental Accounting Standards Board.

Footnotes to the consolidated financial statements provide additional information that is essential to a full understanding of the data provided in the basic consolidated financial statements.

FINANCIAL HIGHLIGHTS

Net Position – The consolidated statements of net position report all financial resources of the Research Foundation and subsidiary at the end of the fiscal year. Net position over time can be a useful indicator of an entity's financial position. The Research Foundation's assets exceed liabilities as of June 30, 2014 and 2013 by \$4,094,011 and \$3,485,830, respectively. Those amounts include the net position which was temporarily restricted as of June 30, 2014 and 2013 of \$530,680 and \$477,403 respectively. The following schedule is a summary of the Research Foundation's consolidated statements of net position.

CONSOLIDATED STATEMENTS OF NET POSITION

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Assets:		
Current Assets	\$ 9,304,577	\$ 8,950,407
Noncurrent Assets	<u>\$ 454,037</u>	<u>\$ 404,526</u>
Total Assets	<u>\$ 9,758,614</u>	<u>\$ 9,354,933</u>
Liabilities:		
Current Liabilities	<u>\$ 5,664,603</u>	<u>\$ 5,869,103</u>
Total Liabilities	<u>\$ 5,664,603</u>	<u>\$ 5,869,103</u>
Net position:		
Unrestricted	\$ 3,563,331	\$ 3,008,427
Temporarily Restricted	<u>\$ 530,680</u>	<u>\$ 477,403</u>
Total net position	<u>\$ 4,094,011</u>	<u>\$ 3,485,830</u>

During fiscal year 2014, total assets increased by \$403,681 primarily due to a decrease in cash of \$210,154 offset by an increase in accounts receivable of \$564,795, and investment increase of \$49,511. Total liabilities decreased by \$204,500 due to liabilities related to the decrease in restricted cash for contracts, grants, restricted contributions, other agreements and research initiatives of \$41,054 plus a decrease of other additional payables of \$163,446.

Cash is classified as restricted if it offsets the liability from cash received for contracts, grants, contributions, other agreements, and research initiatives and offsets the net position restricted for contributions.

CONSOLIDATED REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Unrestricted Net Position		
Operating Revenue	\$ 6,106,806	\$ 4,658,207
Net Position Released from Restrictions	\$ 107,607	\$ 249,917
Operating Expenses	<u>\$ (5,712,376)</u>	<u>\$ (4,799,741)</u>
Operating Income	\$ 502,037	\$ 108,383
Non-operating Revenues (Expenses)	<u>\$ 52,867</u>	<u>\$ (11,820,506)</u>
Increase (Decrease) in Net Position	\$ 554,904	\$ (11,712,123)
Net Position, Beginning of Year	<u>\$ 3,008,427</u>	<u>\$ 14,720,550</u>
Unrestricted Net Position, End of Year	<u>\$ 3,563,331</u>	<u>\$ 3,008,427</u>

CONSOLIDATED REVENUES, EXPENSES, AND CHANGES IN NET POSITION – continued:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Temporarily Restricted Net Position		
Restricted Contribution Revenue	\$ 160,884	\$ 145,918
Net Position Released from Restrictions	<u>\$ (107,607)</u>	<u>\$ (249,917)</u>
Increase (Decrease) in Net Position	\$ 53,277	\$ (103,999)
Net Position, Beginning of Year	<u>\$ 477,403</u>	<u>\$ 581,402</u>
Temporarily Restricted Net Position, End of Year	<u>\$ 530,680</u>	<u>\$ 477,403</u>

Analysis of Operating Revenue – Operating revenue includes royalties, contracts and grants, other agreements, and research initiatives. In fiscal year 2014, operating revenue was more than fiscal year 2013 by \$1,306,289 due to an increase in royalties and licensing fees, projects related to contracts, grants, other agreements, research initiatives, and other miscellaneous income of \$1,291,402, plus an increase in royalty profit (loss) on investment of \$14,887. The increase in royalty profit (loss) on investment was a result of the valuation of the Finisar Corporation stock at June 30th, 2014.

Analysis of Non-operating Revenue (Expenses) – Non-operating revenues (expenses) includes the write down of the building, interest, investment gains and losses, and dividends. In fiscal year 2014, non-operating revenue (expense) was greater than fiscal year 2013 by \$11,873,373 due to decrease in Investment Revenue of \$15,777 offset by FY 2013 write down of the building and land less previous years depreciation of \$11,889,150.

Analysis of Temporarily Restricted Net Position – The temporarily restricted net position is a result of donations or contributions received during the year which are restricted by the donor for a specific purpose, such as research by a professor. The temporarily restricted net position also consists of residual funds from fixed priced contracts which remain restricted for the principal investigator. The temporarily restricted net position is restricted for the general purpose of research activities. Restricted net position is released from restrictions and transferred to unrestricted net position when all donor or principal investigator provisions have been met. Total restricted contribution revenue received during fiscal year 2014 was \$160,884 compared to \$145,918 received in fiscal year 2013.

ANALYSIS OF CONSOLIDATED OPERATING EXPENSES

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Operating Expenses:		
Contracts, Grants, Contributions, Royalty and License Expense, Other Agreements and Research Initiatives	\$ 5,457,363	\$ 4,430,248
Royalty Expense Valuation on Investments	\$ 44,257	\$ 31,454
Professional and Other Expenses	\$ 29,722	\$ 130,574
ORC Sponsored Activities	<u>\$ 181,034</u>	<u>\$ 207,465</u>
Total Operating Expenses	<u>\$ 5,712,376</u>	<u>\$ 4,799,741</u>

ANALYSIS OF CONSOLIDATED OPERATING EXPENSES - continued

Operating expenses were \$912,635 greater in fiscal year 2014 than in fiscal year 2013. Contracts, grants, contributions and other agreements, and research initiatives expense were \$858,091 greater in fiscal year 2014, which is a result of the increase in activity and corresponding revenue. Royalty and licensing expense increased in fiscal year 2014 by \$169,024. Royalty expense valuation increased by \$12,803. These increases were offset by the decrease in ORC sponsored activities by \$26,431 and other expenses and professional services of \$100,852.

ANALYSIS OF CONSOLIDATED CASH FLOWS

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Cash Flows:		
Net Cash Provided (Used) in		
Operating Activities	\$ (264,971)	\$ 727,888
Net Cash Provided by Investing		
Activities	<u>\$ 54,817</u>	<u>\$ 59,520</u>
Net Increase (Decrease) in Cash		
and Cash Equivalents	\$ (210,154)	\$ 787,408
Cash and Cash Equivalents,		
Beginning of Year	<u>\$ 8,122,707</u>	<u>\$ 7,335,299</u>
Cash and Cash Equivalents,		
End of Year	<u>\$ 7,912,553</u>	<u>\$ 8,122,707</u>

Overall cash and cash equivalents decreased by \$210,154 in fiscal year 2014. This was primarily due to contracts, grants, other agreements, and research initiatives cash payments exceeding related cash received by \$411,634, offset by royalty cash received exceeding royalty allocation payouts of \$175,914, and net cash received from investing activities of \$54,817, and other cash expended of \$29,251.

OTHER SIGNIFICANT EVENTS

On April 1st, 2010, a building was donated by Intersil Corp. to the wholly owned subsidiary of the UCF Research Foundation, the UCF Research Foundation Real Estate LLC. Based on a contemporaneous appraisal, this non-cash donation was recorded in the consolidated statements of the UCF Research Foundation at a value of \$13,065,000. The assets were recorded as Land, \$2,613,000 and Building, \$10,452,000 with a 20 year life on the building. Depreciation is being incurred on a straight line basis. The agreement states that Intersil will pay for a general list of repairs including the roof and parking lot repairs not to exceed \$120,000 and all services for the property not to exceed \$150,000 for a period of one year. Under the terms of the donation, the UCF Research Foundation Real Estate LLC can unilaterally elect to return the building within a three year period. The Board elected to return the building per the June 2013 special Board Meeting, resulting in a write down of the Land and Building of \$11,889,150. The building was returned on July 19th, 2013.

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

Since the Research Foundation has no employees, funding for employees is provided by the University. Other items such as office space, and minor operating expenses such as travel, are also provided for by the University. The University is expected to continue to provide this support. However, should the economy significantly affect state appropriations, this may have an impact on the support provided for the Research Foundation's activities.

CONSOLIDATED STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013
THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC. AND SUBSIDIARY
ORLANDO, FLORIDA

ASSETS

	2014	2013
Current Assets		
Cash and Cash Equivalents	\$ 858,152	\$ 1,127,714
Restricted Cash and Cash Equivalents	4,347,853	4,335,630
Cash with Fiscal Agent	2,706,548	2,659,363
Accounts Receivable (Net of Allowance for Doubtful Accts)	1,388,179	823,384
Prepaid Insurance	3,845	4,316
Total Current Assets	9,304,577	8,950,407
Noncurrent Assets		
Investments	454,037	404,526
Total Noncurrent Assets	454,037	404,526
Total Assets	\$ 9,758,614	\$ 9,354,933

LIABILITIES AND NET POSITION

Current Liabilities		
Accounts Payable	\$ 1,230,068	\$ 1,518,646
Allocations and F&A Payable	617,362	492,230
Deferred Restricted Revenues	3,817,173	3,858,227
Total Current Liabilities	5,664,603	5,869,103
Net Position		
Unrestricted	3,563,331	3,008,427
Temporarily Restricted	530,680	477,403
Total Net Position	4,094,011	3,485,830
Total Liabilities and Net Position	\$ 9,758,614	\$ 9,354,933

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
JUNE 30, 2014 AND 2013
THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION , INC. AND SUBSIDIARY
ORLANDO, FLORIDA

	<u>2014</u>	<u>2013</u>
Unrestricted Net Position		
Operating Revenues		
Royalties and Licensing Fees	\$ 628,991	\$ 365,999
Royalty Profit (Loss) on Investment	51,461	36,574
Contracts and Grants	3,133,647	2,513,833
Other Agreements Income	577,624	249,317
Research Initiatives	1,158,848	1,107,319
ORC Contributions and Miscellaneous Income	556,235	385,165
Net Position Released from Restrictions	107,607	249,917
Total Operating Revenues	<u>6,214,413</u>	<u>4,908,124</u>
Operating Expenses		
Royalties and Licensing Allocations	361,801	203,475
Royalties and Licensing Expenses	58,070	47,372
Royalties Expense Valuation Account	44,257	31,454
Contracts and Grant Expenses	3,133,647	2,513,833
Other Agreements Expense	577,624	249,317
Contribution Expense	107,607	249,917
Research Initiatives	1,218,614	1,166,334
Other Expenses	8,500	111,927
Professional Expenses	21,222	18,647
ORC Sponsored Activities Expense	181,034	207,465
Total Operating Expenses	<u>(5,712,376)</u>	<u>(4,799,741)</u>
Net Operating Revenues	<u>502,037</u>	<u>108,383</u>
Non-operating Revenues (Expenses)		
Investment Revenue	54,122	59,130
Investment Gain (Loss)	(1,255)	9,514
Donation Non Cash Write Off	-	(11,889,150)
Total Non-operating Revenues (Expenses)	<u>52,867</u>	<u>(11,820,506)</u>
Increase (Decrease) in Unrestricted Net Position	554,904	(11,712,123)
Unrestricted Net Position, Beginning of Year	<u>3,008,427</u>	<u>14,720,550</u>
Unrestricted Net Position, End of Year	<u>\$ 3,563,331</u>	<u>\$ 3,008,427</u>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION , INC. AND SUBSIDIARY
ORLANDO, FLORIDA**

	2014	2013
Temporarily Restricted Net Position		
Restricted Contribution Revenue	\$ 160,884	\$ 145,918
Net Position Released from Restrictions	(107,607)	(249,917)
Increase (Decrease) in Temporarily Restricted Net Assets	53,277	(103,999)
Temporarily Restricted Net Position, Beginning of Year	477,403	581,402
Temporarily Restricted Net Position, End of Year	\$ 530,680	\$ 477,403
Total Net Position	\$ 4,094,011	\$ 3,485,830

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION , INC. AND SUBSIDIARY
ORLANDO, FLORIDA

	2014	2013
Cash Flows from Operating Activities		
Cash Received (Used) for:		
Licensing Fees and Royalties	\$ 514,910	\$ 378,665
Contract, Grants, Contributions and Research Initiatives	4,539,235	4,276,425
ORC Contributions and Expenses	375,201	177,700
Royalties and Licensing Allocations	(338,996)	(257,303)
Contract, Grants, Contributions and Research Initiatives	(5,326,070)	(3,770,630)
Other Disbursements	(29,251)	(76,969)
Net Cash Provided (Used) in Operating Activities	(264,971)	727,888
Cash Flows from Investing Activities		
Investment Revenue	54,122	59,811
Purchase or Sale of Investments	695	(291)
Net Cash Provided by Investing Activities	54,817	59,520
Net Increase (Decrease) in Cash and Cash Equivalents	(210,154)	787,408
Cash and Cash Equivalents, Beginning of Year	8,122,707	7,335,299
Cash and Cash Equivalents, End of Year	\$ 7,912,553	\$ 8,122,707
<u>Presented in the Consolidated Financial Statements as:</u>		
Cash and Cash Equivalents	\$ 858,152	\$ 1,127,714
Restricted Cash and Cash Equivalents	4,347,853	4,335,630
Cash with Fiscal Agent	2,706,548	2,659,363
Total Presented to the Consolidated Financial Statements	\$ 7,912,553	\$ 8,122,707
<u>Cash Flows from Operating Activities</u>		
Net Operating Revenues	\$ 502,037	\$ 108,383
Decrease in Restricted Net Assets	53,277	(103,999)
Loss in Fair Value of Operating Investments	(51,461)	(36,574)
Royalty Expense Valuation Account Adjustment	44,257	31,454
Provision for Doubtful Accounts	73,321	-
Adjustments to Reconcile Change in Net Position to Net Cash		
Provide by (Used in) Operating Activities:		
Decrease (Increase) in Accounts Receivable	(638,116)	(187,577)
Decrease in Prepaid Insurance	471	53,605
Increase (Decrease) in Accounts Payable	(288,578)	408,771
Increase (Decrease) in Allocations and F&A Payable	80,875	(6,456)
Increase (Decrease) in Deferred Restricted Revenues	(41,054)	460,281
Net Cash Provided (Used) in Operating Activities	\$ (264,971)	\$ 727,888

See accompanying notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
THE UNIVERSITY OF CENTRAL FLORIDA
RESEARCH FOUNDATION, INC., AND SUBSIDIARY
ORLANDO, FLORIDA**

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

Organization and Purpose

The University of Central Florida Research Foundation, Inc., and subsidiary (the “Research Foundation”), is a not-for-profit Florida Corporation incorporated April 30, 1991. The Research Foundation is operated exclusively for the benefit of The University of Central Florida (the “University” or “UCF”). The Research Foundation is a University Direct-Support Organization within the definition of Florida Statutes Section 240.299, and as such is organized and operated exclusively to receive, hold, invest and administer property and to make expenditures to or for the benefit of the University. Since the Research Foundation’s purpose complements that of the University’s Office of Research, many functions are coordinated to maximize the benefit to the University’s research community.

The purposes of the Research Foundation include the promotion and encouragement of, and assistance to, the research activities of faculty, staff, and students of the University, including the development of research, and the provision of buildings for such research activities and related or complementary uses, and to provide a means by which inventions and copyrightable materials may be developed, patented, applied and utilized in order that the results of University research shall be made available to the public and that funds be made available from inventions and copyrightable materials to support education and research at the University.

The Research Foundation formed a wholly owned subsidiary, UCF Research Foundation Real Estate LLC. The subsidiary was formed for the purpose of holding land and a building that was donated by Intersil Corp in April 2010.

Basis of Accounting and Financial Reporting

The financial statements of the Research Foundation are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. GASB is the standard-setting body for governmental accounting and financial reporting.

In accordance with GAAP, the Research Foundation qualifies for treatment as a component unit of the University of Central Florida; therefore, the Research Foundation’s consolidated financial statements are included in the University’s financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
THE UNIVERSITY OF CENTRAL FLORIDA
RESEARCH FOUNDATION, INC., AND SUBSIDIARY
ORLANDO, FLORIDA
(Continued)**

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Financial Reporting (Continued)

For financial reporting purposes, the Research Foundation is considered a special-purpose government organization engaged only in business-type activities. Accordingly, the Research Foundation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Changes in the net position of the Research Foundation as a result of support, revenue, expenses, gains and losses are classified based on the existence of any funding restrictions. Accordingly, the net position of the Research Foundation and changes therein are classified and reported as follows:

- Unrestricted – net position that is not subject to funding restrictions. The unrestricted net position may be designated for specific purposes by action of the Board of Directors.
- Temporarily Restricted – net position whose use by the Research Foundation is subject to donor-imposed or principal investigator stipulations that can be fulfilled by actions of the Research Foundation pursuant to those stipulations or that expire by the passage of time.

Expenses are reported as decreases in the unrestricted net position. Expirations of donor-imposed or principal investigator stipulations that simultaneously increase one class of net position and decrease another are reported as reclassifications between the applicable classes of net position. Residual funds from fixed priced contracts remain restricted for the principal investigator to spend on research related activities. Revenue is recognized as the respective project expenditures occur. When both restricted and unrestricted resources are available for use, it is the Research Foundation's policy to use restricted resources first, then unrestricted resources as they are needed

These financial statements are entirely those of the Research Foundation alone and, accordingly, are not intended to present the financial position or the results of operations of the University.

Principles of Consolidation

The consolidated financial statements include the accounts of The University Central Florida Research Foundation, Inc. and its wholly owned subsidiary. All intercompany accounts and transactions have been eliminated.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
THE UNIVERSITY OF CENTRAL FLORIDA
RESEARCH FOUNDATION, INC., AND SUBSIDIARY
ORLANDO, FLORIDA
(Continued)**

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Research Foundation, the accounts of the Research Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. All of the Research Foundation's financial activity is accounted for in a single enterprise fund.

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit in checking, repurchase sweep account, amounts held by UCF and the UCF Foundation, and certificates of deposits.

Restricted cash and cash equivalents are that portion of the cash balance that is restricted for contracts and grants and project balances.

Cash with fiscal agent consists of amounts held by the UCF Foundation and UCF to be invested in investment opportunities which are permissible under the current investment policy.

Investments

The Research Foundation accounts for investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Under this provision, investments are recorded at fair value on the consolidated balance sheets. Investment income, including changes in the fair value of investments, is reported as revenue in the consolidated statements of revenues, expenses and changes in net position.

Fair value is based on quoted market price for securities other than closely held common stock which is recorded at historical cost and is adjusted to fair value upon known relevant information.

Receivables

Receivables are valued at net realizable value and are unsecured. It is the Research Foundation's policy to provide an allowance for accounts receivable that are not expected to be collected. The allowance as of June 30, 2014 was \$73,321, however, no allowance was deemed necessary at June 30, 2013.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
THE UNIVERSITY OF CENTRAL FLORIDA
RESEARCH FOUNDATION, INC., AND SUBSIDIARY
ORLANDO, FLORIDA
(Continued)**

Note 1 - Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

The Research Foundation did not hold any derivative instruments for trading purposes at June 30, 2014 and 2013, and does not invest in derivative instruments. The carrying amount of cash receivables and payables approximates fair value.

Capital Assets

It is the Research Foundation's policy to record fixed assets at cost, if purchased, or at their estimated fair value at the date of donation, if donated. Maintenance and repairs are charged to expense when incurred, betterments are capitalized.

Impairment of Long-Lived Assets

In June 2013, the Board elected to return a building that had been donated to the Research Foundation in a prior year to its original donor. The building was returned in July 2013. The Research Foundation evaluated the estimated future undiscounted cash flows to determine that the building should be written down to \$-0- at June 30, 2013.

Allocations Payable

Allocations payable consist of royalty and license fee distributions accrued to individuals, University departments, and Colleges/Institutes responsible for the development of various patented or copyrighted research. The Research Foundation calculates the amount due to those parties and accrues a liability for this amount. Also included is the Facilities and Administrative ("F&A") payable accrued to University Colleges/Institutes responsible for the project.

Deferred Restricted Revenues

Deferred restricted revenue consists primarily of the unexpended portions of contracts and grants that are being administered by the Research Foundation. Revenue is recognized only to the extent expenses are incurred and paid in executing the applicable contracts and grants.

Classification of Revenues

The Research Foundation classifies its revenues as operating or non-operating according to the following criteria:

- **Operating Revenues**—include activities that have the characteristics of exchange transactions, such as royalty and licensing transactions and contracts and grants. Exchange transactions are transactions in which each party receives and gives up essentially equal values. Contribution income is also considered operating revenues.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
THE UNIVERSITY OF CENTRAL FLORIDA
RESEARCH FOUNDATION, INC., AND SUBSIDIARY
ORLANDO, FLORIDA
(Continued)**

Note 1 - Summary of Significant Accounting Policies (Continued)

Classification of Revenues

The Research Foundation classifies its revenues as operating or non-operating according to the following criteria (continued):

- **Non-operating Revenues**—include activities that are not normal Research Foundation operating activities, such as investment income, depreciation, and loss on donation.

Revenue Recognition

The Research Foundation negotiates with licensees for their purchase of or license to use inventions and the related patents, trademarks, and copyrights developed by the University and its employees. Pursuant to its operating agreement with the University, the Research Foundation collects the licensees' payments and distributes the proceeds to the inventors and the University. The Research Foundation recognizes royalty and licensing revenue when amounts are earned with licensees in accordance with the terms in the license agreement. Patent, trademark and copyright application costs are expensed when incurred. Revenue is recognized on contracts & grants, other agreements, and research initiatives when disbursements are incurred. Revenue is recognized on contributions when received or when an enforceable promise is made and it is recognized on miscellaneous income when earned.

Income Taxes

The Research Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision for income tax expense or liability has been made.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Facilities Use and Personnel

Facilities and personnel are provided at no cost to the Research Foundation by the Office of Research and Commercialization, a division of the University.

Note 2 - Cash and Cash Equivalents

Custodial Credit Risk

At June 30, 2014 and 2013, the Research Foundation had deposits in banking institutions and held by UCF in excess of the federal insurance limit. The amount in excess of the FDIC limit is \$2,780,396 and \$2,739,162 as of June 30, 2014 and 2013, respectively.

At June 30, 2014 and 2013, funds of approximately \$2,700,000 and \$2,653,000 were invested in the Special Purpose Investment Account with the funds being held by UCF. These amounts are not insured or guaranteed by the FDIC and are included in the accompanying consolidated statements of net position as cash with fiscal agent.

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(Continued)**

Note 2 - Cash and Cash Equivalents (Continued)

The Research Foundation maintains a repurchase sweep account with a local bank. The target balance in the main operating accounting is “swept” overnight by the bank and is collateralized by mortgage-backed securities issued by the Federal National Mortgage Association and/or the Federal Home Loan Mortgage Corporation which have been temporarily sold to the Research Foundation under the terms of the repurchase agreement. The balance in the repurchase account as of June 30, 2014 and 2013 was \$1,203,995 and \$1,062,923, respectively. This amount is not included in the deposit amount uninsured by FDIC.

Note 3 - Investments

The Research Foundation’s Board passed by unanimous vote that the decision to sell the Finisar stock will be deferred to the President and the Vice President of the Research Foundation. The Research Foundation has no debt securities on hand as of June 30, 2014 or 2013; therefore, investments are not subject to credit, foreign currency, concentration of credit risk, or interest rate risk. All investments are held in the name of the Research Foundation and are not subject to custodial risk.

Investments are stated at fair value based on quoted market prices and consist of the following as of June 30:

	2014	2013
Corporate Stock: Finisar Corporation	\$ 362,985	\$ 311,524
Investment in Banyan Fund	62,971	68,958
Investment in Inflexion, LLC	28,081	24,044
	\$ 454,037	\$ 404,526

Note 4 - Risk Management

The Research Foundation has no employees. Its staff and offices are provided by The University of Central Florida, which is covered by their self-insurance and other commercial insurance coverage, as applicable.

The Research Foundation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Commercial insurance against losses is provided for the following types of risk:

- Business
- Property Damage
- Liability
- Director’s and Officers Liability

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013
THE UNIVERSITY OF CENTRAL FLORIDA
RESEARCH FOUNDATION, INC., AND SUBSIDIARY
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(Continued)**

Note 5 - Operating Leases

The Research Foundation entered into an operating lease in March 2010 for an office building in St. Cloud, Florida for a term of 5 years. The premises shall be used and occupied as general business offices related to the UCF-St. Cloud business incubator, and other related incubator activities, and for no other purpose. The rental amounts are chargeable to a funded contract agreement. Total rental expense associated with the lease was approximately \$397,000 and \$387,000 for the years ended June 30, 2014 and 2013, respectively.

Future minimum rental payments for the year ended June 30, are as follows:

2015	\$ <u>281,747</u>
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The Research Foundation entered into a lease in September 2010. This lease ended in September 2013, when an amendment to the operating lease was entered into for an office building in Kissimmee, Florida for a term of 6 years. The premises shall be used and occupied as general business offices related to the Kissimmee business incubator, and other related incubator activities, and for no other purpose. The rental amounts are chargeable to a funded contract agreement. Total rental expense associated with the lease was approximately \$156,000 and \$135,000 for the years ended June 30, 2014 and 2013, respectively.

Future minimum rental payments for the year ended June 30, are as follows:

2015	\$ 159,804
2016	\$ 159,804
2017	\$ 164,601
2018	\$ 171,186
2019	\$ 178,113
2020	\$ <u>44,967</u>
	<u>\$ 878,475</u>

The Research Foundation entered into an operating lease in October 2010 and renewed this lease when it ended in October 2013 for an office building in Winter Springs, Florida. The premises shall be used and occupied as general business offices related to the Winter Springs business incubator, and other related incubator activities, and for no other purpose. The rental amounts are chargeable to a funded contract agreement. Total rental expense associated with the lease was approximately \$261,000 and \$248,000 for the years ended June 30, 2014 and 2013, respectively.

Future minimum rental payments for the year ended June 30, are as follows:

2015	\$ 272,664
2016	\$ 278,818
2017	\$ <u>70,091</u>
	<u>\$ 621,573</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Continued)**

Note 6 - Temporarily Restricted Net Position

The temporarily restricted net position of \$530,680 and \$477,403 was available for research initiatives at June 30, 2014 and 2013, respectively. The temporarily restricted net position was released from donor and principal investigator restrictions by incurring expenses satisfying the restricted purposes of research activities of \$107,607 and \$249,917 during the years ended June 30, 2014 and 2013, respectively.

Note 7 - Subsequent Events

The Research Foundation has evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through August 19, 2014, the date the consolidated financial statements were available to be issued.

**INDEPENDENT AUDITOR’S 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**

Board of Directors
The University of Central Florida
Research Foundation, Inc., and subsidiary
Orlando, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of Central Florida Research Foundation, Inc. and subsidiary (the “Research Foundation”), which comprise the consolidated statement of net position as of June 30, 2014, and the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Research Foundation’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 Research Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Research Foundation’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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Research Foundation's consolidated 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 consolidated 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.

Carole Riggs & DeBorja LLC

August 19, 2014