

**UCF ATHLETICS ASSOCIATION, INC.
(A COMPONENT UNIT OF THE UNIVERSITY
OF CENTRAL FLORIDA)**

FINANCIAL STATEMENTS

JUNE 30, 2019

UCF ATHLETICS ASSOCIATION, INC.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
UCF Athletics Association, Inc.
Orlando, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the UCF Athletics Association, Inc. (the "Association"), a direct support organization and component unit of the University of Central Florida, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Association'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 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 the 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 financial statements based on our audit. 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 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association, as of June 30, 2019, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-10 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 November 21, 2019, on our consideration of the Association'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 Association's internal control over financial reporting and compliance.



Crowe LLP

Tampa, Florida
November 21, 2019

**UCF ATHLETICS ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

Introduction

The UCF Athletics Association, Inc. (the Association), a not-for-profit corporation, is a Direct Support Organization (DSO) of the University of Central Florida (UCF).

The Association recently completed its first year of a strategic plan to cover a five-year period through the 2021-22 fiscal year and developed the following mission and vision statements, and core values:

Mission Statement: *To positively transform the lives of our students academically, athletically, and personally through a nationally competitive intercollegiate athletics program that enhances the reputation and visibility of the University.*

Vision Statement: *To be Florida's preeminent athletic program representing UCF and our community with distinction on the national stage as... "Orlando's Hometown Team"*

Core Values:

STUDENT-ATHLETE SUCCESS

In support of UCF's commitment to student success, we invest in our student-athletes as individuals and maintain an environment that encompasses their holistic development, empowering them to achieve their personal best in all facets of life.

INTEGRITY

In support of UCF's commitment to excellence, we maintain an unwavering commitment to the highest standards of character and sportsmanship in all we do.

PARTNERSHIP

In support of UCF's role as America's Partnership University, we are committed to fostering teamwork on campus and engaging the community through collaboration and mutually beneficial relationships.

INCLUSION

In support of UCF's commitment to inclusion, we embrace diversity and champion a welcoming and supportive environment for all members of our community.

ACCOUNTABILITY

In support of UCF's commitment to excellence, we set high standards, are reliable and hold ourselves responsible for our actions and results.

The success of the athletics programs can be attributed to many factors, which include its alliance with a great academic institution, outstanding coaches, extremely talented student-athletes, a strong recruiting base, state-of-the-art facilities, affiliation with a nationally competitive conference, tremendous University and community support, and an unequivocal commitment to each sport.

UCF ATHLETICS ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019
(Continued)

Overview of the Financial Statements and Financial Analysis

The Association is pleased to present its financial statements for the fiscal year ended June 30, 2019. This discussion and analysis is provided as an understanding of the Association's financial condition and operating activities for the year. The overview presented below highlights the significant financial activities that occurred during the year. This overview should be read in conjunction with the summaries of net position and revenues, expenses and changes in net position and our financial statements, which begin on page 9.

Using the Financial Statements

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis – for Colleges and Universities*.

There are three financial statements presented: Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows. The Association's net position is one indicator of the improvement or erosion of its financial health. However, one must also consider the non-financial facts such as the overall academic and athletic success as part of the evaluation. This success is evidenced by the following:

- UCF completed its sixth season in the American Athletic Conference (The American) in 2018-19. With increased national exposure because of success in the American, UCF has and will continue to strengthen not only the profile and brand of the athletics programs, but the University as well.
- UCF was American Athletic Conference Champions in the sports of football, rowing, volleyball and women's tennis during the season. Football has won four conference championships in six years of membership.
- The football team had a win-loss record of 12-1 in the 2018 season and played in a "New Year's Six" bowl game for the second consecutive year.
- Nine of the sixteen UCF varsity sports participated in NCAA post-season which is the most to do so in program history.
- UCF is the only Division I athletics program in the country where all its "head-to-head" competition sports finished the season with a winning record. This was the second consecutive year UCF has accomplished this task.
- In the classroom, our student-athletes marked the twenty-second consecutive semester in which they earned at least a 3.0 grade-point average or higher.
- There were 253 student-athletes selected to the Conference All-Academic Team along with one athlete selected as an AAC Sport Scholar Athlete. Both the UCF Volleyball and Rowing teams earned the AAC Team Academic Excellence Award.

UCF ATHLETICS ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019
(Continued)

Statement of Net Position

The Statement of Net Position presents the assets, liabilities and net position of the Association as of the end of the fiscal year. The Statement of Net Position is a point-in-time financial statement. Its purpose is to present to the readers of the financial statements a fiscal snapshot of the Association. The Statement of Net Position is prepared using the economic resources measurement focus and the accrual basis of accounting, where revenues are recorded when they are earned and expenses are recognized when they are incurred.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Association. They can determine how much the Association owes to vendors and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and their availability for expenditure by the Association.

Net position is divided into three major categories. The first category, invested in capital assets, net of related debt, provides the Association's equity in property, plant and equipment. The second category is restricted net position, which consists of assets 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. The third category is unrestricted net position, which is available to the Association for any purpose.

Condensed Summary of Net Position				
	2019	2018	Variance Amount	Percentage
Assets:				
Current assets	\$ 4,912,909	\$ 4,099,592	\$ 813,317	20 %
Non-current assets	23,831,786	22,650,504	1,181,282	5 %
Total assets	28,744,695	26,750,096	1,994,599	7 %
Liabilities:				
Current liabilities	9,496,688	7,238,107	2,258,581	31 %
Noncurrent liabilities	10,846,484	11,867,055	(1,020,571)	(9) %
Total liabilities	20,343,172	19,105,162	1,238,010	6 %
Net position:				
Net investment in capital assets	18,176,787	16,995,505	1,181,282	7 %
Restricted	2,092,006	693,762	1,547,970	223 %
Unrestricted	(12,016,996)	(10,044,333)	(1,972,663)	20 %
Total net position	\$ 8,401,523	\$ 7,644,934	\$ 756,589	10 %

UCF ATHLETICS ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019
(Continued)

Highlights:

- Non-current assets include a softball stadium, practice facilities (indoor and outdoor) for football, a rowing center, and improvements to the track/soccer facility, the baseball stadium, and practice facility for the UCF golf programs.
- Current liabilities include the following:
 - Approximately \$3 million from deferred football ticket revenue.
- Non-current liabilities include the following:
 - Approximately \$5.4 million from a line of credit to fund construction projects for the sports programs.
 - Approximately \$5.8 million for the remaining amount owed to the University from outstanding loans, excluding the current portion.
- Restricted – Of the amount shown as restricted, approximately \$ 1.4 Million is restricted for capital projects and the remaining amount is donor restricted for various non-capital expenditures.
- Unrestricted net position is currently in a deficit state; however, as our programs continue to be successful and with our growing alumni base, the deficit will ultimately be reduced. Although revenue growth may not be as high in the short-term, the Conference will enter into a new television rights package beginning in 2020-21 fiscal year that will increase the base distribution to UCF by 193%, and a growing alumni and market base should result in increased sponsorships, ticket sales, contributions, and suite/club sales from the new facilities that, in time, will put UCFAA in a stronger unrestricted financial position.

Summary of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position present the revenues and expenses incurred during the year. Revenues and expenses are reported as operating and non-operating. The GASB requires that state appropriations and other revenues, which are not payment for services, be classified as non-operating revenues. Likewise, interest on related debt is classified as a non-operating expense. Because these non-operating revenues, which include distributions from related parties, are budgeted to fund operating expenses, classifying them as non-operating can cause the reporting of an operating loss. Therefore, the Association believes that income after distributions (included in the non-operating revenues/expense section) provides the most appropriate measure of its financial results. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present revenues received by the Association, operating and non-operating, and the expenses paid by the Association, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the Association.

In general, operating revenues are received for providing goods and services to our various customers and constituencies. Operating expenses are those expenses paid to acquire or produce goods and services provided in the return for the operating revenues, and to carry out the mission of the Association. Non-operating revenues are revenues received for which goods or services are not provided.

UCF ATHLETICS ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019
(Continued)

In general, operating revenues are received for providing goods and services to our various customers and constituencies. Operating expenses are those expenses paid to acquire or produce goods and services provided in the return for the operating revenues, and to carry out the mission of the Association. Non-operating revenues are revenues received for which goods or services are not provided.

Condensed Summary of Revenues, Expenses and Changes in Net Position				
	2019	2018	Variance	
			Amount	Percentage
Operating revenues:				
Student fees	\$ 23,672,594	\$ 23,142,539	\$ 530,055	2%
Game tickets	6,728,686	7,308,375	(579,689)	(8)%
Conference and NCAA distributions	8,497,568	8,642,281	(144,713)	(2)%
Contributions from donors	8,887,143	8,463,050	424,093	5%
Game guarantees	216,500	200,000	16,500	8%
Scholarship support	7,467,913	4,532,537	2,935,376	65%
Sponsorships	6,755,872	3,033,441	3,722,431	123%
Other operating revenues	926,086	3,834,807	(2,908,721)	(76)%
Total operating revenues	63,152,362	59,157,030	3,995,332	7%
Operating expenses:				
Salaries and benefits	20,125,758	19,389,015	736,743	4%
Scholarships	9,553,087	8,838,863	714,224	8%
Travel	7,408,689	5,627,387	1,781,302	32%
Independent contractors /professional fees	7,250,074	6,376,155	873,919	14%
General and administrative	13,537,553	11,234,239	2,303,314	21%
Other operating expenses	4,800,019	4,449,831	350,188	8%
Total operating expenses	62,675,180	55,915,490	6,727,690	12%
Non-operating revenues (expenses):				
Contributions from UCF and related entities	598,559	598,559	-	0%
Distributions from Stadium Corp (net)	697,143	388,405	308,738	79%
Contribution expense to UCF	(596,238)	-	(596,238)	100%
Distributions from Convocation Corp	-	312,000	(312,000)	(100)%
Interest expense	(420,057)	(248,788)	(171,269)	(68)%
Total non-operating revenues (expenses)	279,407	1,050,176	(770,769)	(73)%
Increase (decrease) in net position	756,589	4,289,716	(3,533,127)	26%
Net position, beginning of year	7,644,934	3,355,218	4,289,716	128%
Net position, end of year	\$ 8,401,523	\$ 7,644,934	\$ 756,589	10%

UCF ATHLETICS ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019
(Continued)

Highlights

Revenues:

- Student fee revenue increased slightly due to an increase in credit hours. The per-credit-hour rate did not increase for 2018-19.
- Scholarships increased due to more waivers being allocated to the Athletic program.
- Beginning in 2018-19, the Association began reporting the gross revenues and expenses related to its corporate partnerships. In previous years, the Association only reported its share of the net sponsorship revenue distributions received from the University.
- Other operating revenues decreased from the previous year as there was a contractual buyout for the head football coach in the amount of \$3 million in 2017-18.
- Net distributions to UCF Stadium Corporation increased from last year due to higher revenues from premium seats and concession sales from the previous year.
- Contributions from donors increased from the previous year in both "per-seat" contributions as part of purchasing season tickets for football and basketball, and donations for capital projects.

Expenses:

- Compensation expenses increased from the previous fiscal year due to increasing staff with revenue generating responsibilities, market increases for coaches and staff, and bonus thresholds met for the success throughout the athletics programs.
- Scholarship expenses increased due an increase in scholarship dollars allocated for meals as part of opening a fully operation nutrition center and hiring a full-time nutritionist.
- Travel increased 32% due to travel expenses associated with participating in the Fiesta Bowl in Arizona, the Men's Basketball NCAA tournament as well as other post-season competitions.
- Independent contractors/professional fees increased 14% primarily due to increases with expenses associated with increased amenities and security for football games, and expenses incurred for American Football Alliance games played in Spectrum Stadium.
- General and Administrative expenses increased 21% due to increased expenses associated with playing in the Fiesta Bowl and expenses associated with the American Alliance Football games.
- The Athletics program contributed approximately \$596,000 to the University to assist with the purchase of a video scoreboard but did not receive any contribution from the UCF Convocation Corporation during 2018-19.

UCF ATHLETICS ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019
(Continued)

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the Association during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used in the operating activities of the Association. The second section reflects cash flows from noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. The fifth section reconciles the net cash used in operating activities to the operating income reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

	Condensed Summary of Cash Flows			
	2019	2018	Variance	
			Amount	Percentage
Cash flows from:				
Operating activities, net	\$ 959,185	\$ 3,788,376	\$ (2,829,191)	(75)%
Noncapital financing activities, net	2,197,167	1,218,559	978,608	80%
Capital & related financing activities, net	(3,464,307)	(6,732,728)	3,268,421	(49)%
Investing activities, net	-	-	-	0%
Net change in cash and cash equivalents	(307,955)	(1,725,793)	1,417,838	(82)%
Cash and cash equivalents, beginning of year	469,491	2,195,284	(1,725,793)	(79)%
Cash and cash equivalents, end of year	\$ 161,536	\$ 469,491	\$ (307,955)	(66)%

- UCFAA invested approximately \$2 million in capital improvements during 2018-19 compared to 6.7 million the previous year. The investments in athletics are still being used to enhance the experience of our student-athletes, improve event experience for our fans, strengthen the UCF brand, and ultimately to generate more revenue for the Association.

Capital Asset and Debt Administration

The Association obtained a line of credit in the fall of 2004 with a local bank to fund certain capital projects.

At the end of the year, approximately \$5.6 million was outstanding on the \$8.5 million line. Uses of the funds from the line of credit since the 2004-05 year have been for the resurfacing of the women's track, a new softball stadium, a new Rowing Boat House, renovation to the soccer/track complex, adding seats to the baseball stadium, and a portion of the cost related to the construction of a golf practice facility.

In 2008-09, the University of Central Florida transferred liabilities related to the Wayne Densch Sports Center and Lake Pickett property. In the past, UCFAA has reimbursed the Foundation for those expenses. The asset for the Lake Pickett Property was transferred to UCFAA; however, the asset for the Wayne Densch Sports Center is a state-owned facility therefore no asset transfer occurred. The debt associated with the Wayne Densch Sports Center was retired in 2009-10 and the debt for Lake Pickett property was retired during the 2017-18 year.

UCF ATHLETICS ASSOCIATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019
(Continued)

Economic Outlook

On July 1, 2013, UCFAA entered a new, and exciting, era when UCF became a member of the American Athletic Conference. With the projected increased revenue streams from this membership (television, sponsorships, ticket sales, etc.), a growing alumni base most of whom live in the Central Florida region, increased revenue from fundraising, and the national exposure the University will continue to receive, the deficit balance in unrestricted net position should decline over time.

This financial report is designed to provide a general overview of the Association's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Executive Associate Athletics Director/CFO, at 4465 Knights Victory Way, Orlando, FL 32816.

UCF ATHLETICS ASSOCIATION, INC.
STATEMENT OF NET POSITION
JUNE 30, 2019

Assets

Current assets

Cash and cash equivalents	\$ 161,536
Accounts receivable, net	3,097,524
Due from the University of Central Florida	145,539
Due from the University of Central Florida Foundation, Inc.	287,399
Due from the UCF Convocation Corporation	159,109
Due from the UCF Stadium Corporation	429,832
Prepaid expenses and other current assets	631,970
Total current assets	<u>4,912,909</u>

Noncurrent assets

Capital assets, net of accumulated depreciation	20,068,867
Capital assets not being depreciated	3,762,919
Total noncurrent assets	<u>23,831,786</u>

Total assets	<u>28,744,695</u>
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Liabilities

Current liabilities

Current portion of notes payable to the University of Central Florida	653,337
Line of credit payable	2,218,608
Current portion of line of credit - promissory note	575,000
Current portion of compensated absences	94,088
Accounts payable and accrued expenses	2,216,769
Due to the University of Central Florida	118,497
Due to the UCF Convocation Corporation	125,404
Due to the UCF Stadium Corporation	416,987
Unearned ticket revenue	3,077,998
Total current liabilities	<u>9,496,688</u>

Noncurrent liabilities

Notes payable to the University of Central Florida, less current portion	5,160,147
Line of credit - promissory note, less current portion	5,079,999
Compensated absences, less current portion	606,338
Total noncurrent liabilities	<u>10,846,484</u>

Total liabilities	<u>20,343,172</u>
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Net position

Net investment in capital assets	18,176,787
Restricted for:	
Capital projects	1,420,135
Specific sports' activities	821,597
Unrestricted	(12,016,996)
Total net position	<u>\$ 8,401,523</u>

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

UCF ATHLETICS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

Operating revenues	
Student athletic fees	\$ 23,672,594
Contributions	8,887,143
Conference and NCAA distributions	8,497,568
Game tickets	6,728,686
Tuition fee waivers	7,467,913
Sponsorships and royalties	6,755,872
Game guarantees	216,500
Other	926,086
Total operating revenues	63,152,362
Operating expenses	
Salaries and benefits	20,125,758
Scholarships	9,553,087
Independent contractors	7,250,074
Athletic supplies and subsistence	7,993,441
Travel	7,408,689
Rents and leases	1,544,960
Game guarantees	1,349,920
Depreciation	1,054,780
Other general and administrative	2,057,788
Utilities	999,276
Office	968,769
Insurance	720,239
Repairs and maintenance	674,921
Telephone	541,638
University overhead	125,000
Printing	228,479
Other sports team	78,361
Total operating expenses	62,675,180
Operating income	477,182
Nonoperating revenues (expenses)	
Contributions from the University of Central Florida - Gender Equity Allocation	598,559
Distributions to other UCF organizations	(596,238)
Distributions to UCF Stadium Corporation	(6,483,319)
Distributions from UCF Stadium Corporation	7,180,462
Interest expense	(420,057)
Total nonoperating revenues (expenses)	279,407
Increase in net position	756,589
Net position, beginning of year	7,644,934
Net position, end of year	\$ 8,401,523

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

**UCF ATHLETICS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

Cash flows from operating activities	
Receipts from student athletic fees	\$ 23,594,186
Receipts from contributions	8,887,143
Receipts from ticket sales	6,276,047
Receipts from sponsorships	6,492,221
Receipts from conference and NCAA distributions	8,524,745
Other receipts	1,169,713
Payments to suppliers and others	(26,540,406)
Payments to employees	(20,194,390)
Payments for scholarships	(7,250,074)
Net cash provided by operating activities	<u>959,185</u>
Cash flows from noncapital financing activities	
Change in line of credit	1,598,608
Receipts from the University of Central Florida - Gender Equity Allocation	<u>598,559</u>
Net cash provided by noncapital financing activities	<u>2,197,167</u>
Cash flows from capital and related financing activities	
Distributions to UCF Stadium Corporation	(6,312,899)
Contributions from UCF Stadium Corporation	6,750,630
Distributions to University of Central Florida Foundation, Inc.	(768,475)
Contributions from the University of Central Florida	(1,545)
Contributions from UCF Convocation Corporation	(78,882)
Purchases of capital assets	(2,236,061)
Principal and interest payments on debt obligations	<u>(817,075)</u>
Net cash used in capital and related financing activities	<u>(3,464,307)</u>
Net decrease in cash and cash equivalents	<u>(307,955)</u>
Cash and cash equivalents, beginning of year	469,491
Cash and cash equivalents, end of year	<u><u>\$ 161,536</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 477,182
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,054,780
Changes in assets and liabilities:	
Accounts receivable, net	(24,103)
Prepaid expenses and other current assets	(215,947)
Accounts payable and accrued expenses	188,543
Unearned ticket revenue	(452,638)
Compensated absences	(68,632)
Net cash provided by operating activities	<u><u>\$ 959,185</u></u>

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

UCF ATHLETICS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

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

(a) **Reporting entity**—The UCF Athletics Association, Inc. is a not-for-profit entity, which began operations July 1, 2003, organized for the purpose of conducting various intercollegiate athletic programs for and on behalf of the University of Central Florida. As a direct support organization and component unit of the University of Central Florida (the University), the Association operates for the service and convenience of the University.

The accompanying financial statements present the primary government, and its blended component unit, the U.C.F.A.A. Property Corporation, Inc., for which the primary government is considered to be financially accountable. The U.C.F.A.A Property Corporation, Inc. has no assets and there was no financial activity as of and for the year ended June 30, 2019.

(b) **Measurement focus, basis of accounting, and financial statement presentation**—The financial statements of the Association have been prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Association distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses for the Association are those that result from the operation of the University's intercollegiate athletic programs. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. As required by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*, contributions from the University and other direct support organizations, and contributions to the University and other direct support organizations of the University are not considered operating revenues or expenses and are reported as nonoperating revenues and expenses in the accompanying Statements of Revenues, Expenses, and Changes in Net Position.

In the year ending June 30, 2019, the Association implemented GASB 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, which improved the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

Cash and cash equivalents—Cash and cash equivalents include cash in banks, pooled cash held with the University, and money market funds available for immediate use. The amounts reported as cash and cash equivalents include cash on hand, cash in bank demand accounts, and money market funds.

(Continued)

UCF ATHLETICS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits may not be returned. The Association does not have a deposit policy for custodial credit risk, although all demand deposits with banks are federally insured up to FDIC limits. As of June 30, 2019, no part of the Association's bank balance or pooled cash held with the University was exposed to custodial credit risk as uninsured and uncollateralized.

(c) **Accounts receivable**—Accounts receivable are stated at the amount management expects to collect from balances at year-end. Based on management's assessment of the credit history with organizations having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end should be immaterial. Bad debt expense for the year ended June 30, 2019, was \$386,666, and the allowance for doubtful accounts at June 30, 2019, was \$431,925. The Association has no policy requiring collateral or other security to support its accounts receivable.

(d) **Capital assets**—Capital assets with initial, individual costs that equal or exceed \$5,000 and have estimated useful lives of over one year are recorded as capital assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Capital assets are depreciated using the straight-line method over their estimated useful lives, which range from 3 years to 39 years.

(e) **Income taxes**—The Association is generally exempt from Federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

The Association files tax returns in the U.S. federal jurisdiction. The Association's tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

The Association 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 Association.

(f) **Athletic fees**—The University charges an athletic fee to students each semester based on credit hours enrolled. Athletic fees for semesters which cross fiscal years are recognized during the year in which the semester is predominantly conducted. Athletic fees entitle students to attend all sporting events free of charge. The Association records athletic fees as operating revenues. Approximately 36% of total operating and non-operating revenues were derived from athletic fees during the year ended June 30, 2019.

(g) **Sales taxes retained**—In accordance with Chapter 1006, Section 71 of the Florida Statutes, the Association retains an amount equal to sales taxes collected from ticket sales to athletic events for use in the support of women's athletic programs.

(Continued)

UCF ATHLETICS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

(h) **Unearned ticket revenue**—Unearned ticket revenue consists of advance sales of athletic event tickets. Ticket revenue is recognized in the period the athletic event occurs.

(i) **Compensated absences**—State employees that work for the Association earn the right to be compensated during absences for annual leave (vacation) and sick leave pursuant to Section 6C-5.920 Florida Administrative Code and pursuant to bargaining agreements between the Board of Regents and the United Faculty of Florida. Employees hired after July 1, 2003, are employees of the Association and earn the right to be compensated during absences for annual leave (coaches and staff with similar duties as coaches are excluded) and sick leave pursuant to the Association’s policies and procedures. Leave earned is accrued to the credit of the employee and records are kept on each employee’s unpaid (unused) leave balance. The Association has recorded an accrual for the liability for the employee’s right to receive compensation for future absences.

(j) **Net position**—Net position is classified and displayed in three components:

- Net investment in capital assets – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets.
- Restricted – consists of assets 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 – consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted net position is available for use, it is the Association’s policy to use restricted resources first, then unrestricted resources as they are needed.

Net investment in capital assets	\$ 18,176,787
Restricted	2,241,732
Unrestricted	(12,016,996)
	\$ 8,401,523

Of the amount shown as restricted above, approximately \$1.42 million is restricted for capital projects and the remaining amount is donor restricted for various non-capital expenditures.

(k) **Use of estimates**—The preparation of financial statements in conformity with accounting assumptions that affect the reported amounts of assets and liabilities and 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.

(Continued)

UCF ATHLETICS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

(2) **Accounts Receivable:**

Accounts receivable at June 30, 2019, were as follows:

Alliance of American Football	\$ 447,474
University of Central Florida – student athletic fees	1,552,293
American Athletic Conference	462,082
Other	1,067,600
Allowance for doubtful accounts	<u>(431,925)</u>
	<u>\$ 3,097,524</u>

(3) **Capital Assets:**

Capital asset activity for the year ended June 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decrease</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 700,272	\$ -	\$ -	\$ -	\$ 700,272
Construction in progress	5,375,509	965,663	-	(3,278,525)	3,062,647
Total capital assets not being depreciated	<u>6,075,781</u>	<u>965,663</u>	<u>-</u>	<u>(3,278,525)</u>	<u>3,762,919</u>
Capital assets being depreciated:					
Furniture and equipment	4,903,686	369,604	-	12,900	5,286,191
Facilities	18,067,059	236,218	-	2,765,955	21,069,232
Leasehold improvements	4,343,780	664,576	-	499,670	5,508,026
Total capital assets being depreciated	<u>27,314,525</u>	<u>1,270,398</u>	<u>-</u>	<u>3,278,525</u>	<u>31,863,449</u>
Accumulated depreciation:					
Furniture and equipment	(4,213,238)	(249,341)	-	-	(4,462,579)
Facilities	(5,984,642)	(595,488)	-	-	(6,580,130)
Leasehold improvements	(541,922)	(209,951)	-	-	(751,873)
Total accumulated depreciation	<u>(10,739,802)</u>	<u>(1,054,780)</u>	<u>-</u>	<u>-</u>	<u>(11,794,582)</u>
Capital assets, net	<u>\$ 22,650,504</u>	<u>\$ 1,181,281</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,831,786</u>

(Continued)

UCF ATHLETICS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

(4) **Long-Term Obligations:**

Long-term liability activity for the year ended June 30, 2019, was as follows:

<u>Activity</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes payable (direct borrowings):					
Notes payable to the University	\$ 6,210,502	\$ -	\$ (397,018)	\$ 5,813,484	\$ 653,337
Line of credit – promissory note	5,654,999	-	-	5,654,999	575,000
Total notes payable (direct borrowings)	<u>11,865,501</u>	<u>-</u>	<u>(397,018)</u>	<u>11,468,483</u>	<u>1,228,337</u>
Compensated absences	<u>769,058</u>	<u>8,539</u>	<u>(77,171)</u>	<u>700,426</u>	<u>94,088</u>
Totals	<u>\$ 12,634,559</u>	<u>\$ 8,539</u>	<u>\$ (474,189)</u>	<u>\$ 12,168,909</u>	<u>\$ 1,322,425</u>

The Association currently has a note payable to the University. Interest on the note payable accrues at a floating rate per annum equal to the SPIA rate of return as of the prior fiscal year, which was 1.66% for the year ended June 30, 2019. The loan matures in 2025. In the event of default, after 30 days the entire principal sum and accrued interest becomes due at the option of the University and the interest rate shall increase to the highest rate allowable under Florida law. The note is not subject to any acceleration clauses.

The Association previously had a line of credit with a local bank to fund certain capital projects. During 2015, the line of credit was modified to disallow additional borrowings and repay the outstanding balance as a line of credit promissory note by June 2033 under a specified repayment schedule. The repayment schedule below assumes the agreement is renewed annually. If the agreement is not renewed annually, however, the entire balance will be due in full at that time. At June 30, 2019 the amount outstanding on the note was \$5,654,999. In July 2019 the Association renewed the agreement until July 2033, which carries interest at 67% of LIBOR plus 1.34% (2.97% at June 30, 2019) and is secured by an amount not to exceed 5% of the prior year's collection of student athletic fees and conference payments from the American Athletic Conference. In the event of default, the Lender may declare the loan and all obligations to be fully due and payable in their aggregate amount, together with accrued interest and all prepayment premiums, fees, and charges. The note is subject to acceleration if the lender reasonably deems itself insecure for any reason.

The following is a schedule of future principal payments for the loans outstanding as of June 30, 2019:

<u>Year Ending June 30,</u>	<u>Total</u>
2020	\$ 1,228,337
2021	1,219,434
2022	1,249,598
2023	1,375,012
2024	1,407,237
2025-2029	3,143,866
2030-2033	1,844,999
Total	<u>\$ 11,468,483</u>

(Continued)

UCF ATHLETICS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

(4) **Long-Term Obligations:** (continued)

In June 2018, the Association renewed an operating line of credit agreement with a local bank for \$5,000,000. The line carries an interest rate of LIBOR plus 2.00% (4.43% at June 30, 2019). The line is secured by all contract royalties under multimedia rights agreements as well as all NCAA grant-in-aid and sports sponsorship distributions. At June 30, 2019, there was \$2,218,608 outstanding, leaving \$2,781,392 available on the operating line of credit.

(5) **Related Party Transactions:**

The Association is assessed an annual overhead charge by the University of \$100,000 for utilization of facilities and equipment. The fair market value of renting the facilities and equipment are not subject to objective measurement or valuation and are not included in these financial statements.

During 2008, the Association entered into a rental agreement with the UCF Convocation Corporation for the use of the Convocation Center to support the Association's athletic program. Rental expense for the Association totaled \$580,000 for the year ended June 30, 2019.

During the year ended June 30, 2019, the Association distributed \$596,238 to the University for the purchase of a scoreboard by the University on behalf of the Association.

The Association entered into an agreement with the University of Central Florida Campus Life for maintenance of the turf grass fields used by Campus Life. Under the terms of the agreement, the Association was compensated \$123,600 during the year ended June 30, 2019. These fees are to specifically cover expenses incurred in maintaining the turf.

The Association transferred funds to the UCF Stadium Corporation (the Corporation) for liabilities incurred related to the construction of the football stadium and for repayment of trust indentures as described in Note (8). In accordance with the trust indentures agreements, the Corporation transferred funds back to the Association, for any unrestricted funds after the annual debt service payments have been made for the year. Distributions to and from the Association and the Corporation for the year ended June 30, 2019, are as follows:

Distributions to UCF Stadium Corporation	\$ (6,483,319)
Distributions from UCF Stadium Corporation	<u>7,180,462</u>
Net distributions	<u><u>\$ 697,143</u></u>

(6) **Retirement:**

The Association sponsors the UCF Athletics Association, Inc. Employees' 403(b) plan, a defined contribution plan covering substantially all full-time employees. Contributions are made by the Association to the plan based on eligible employees' earnings. The Association contributes 5% of eligible employee earnings to the plan. Participants are vested immediately in their contributions plus actual earnings thereon. A participant is fully vested after two years of credited service. Participants become immediately 100% vested in the Association's contribution portion of their accounts upon death, disability, or the attainment of normal retirement age, as defined in the Plan. The plan had forfeited non-vested accounts with balances of \$2,466 for the plan year ended December 31, 2018. Balances in these accounts will be used to reduce future employer contributions or pay administrative expenses of the Plan. Total contributions to the retirement plan for the year ended June 30, 2019, were \$707,512.

(Continued)

UCF ATHLETICS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

(7) **Commitments:**

As part of the repayment of the trust indenture on the on-campus football stadium, the Association has pledged the following revenues to the UCF Stadium Corporation (the Corporation that is obligated under the trust indentures) until the debt has been fully paid: football ticket sales, sponsorships, football away game guarantees and the distributions from the American Athletic Conference and NCAA for conference generated revenue. The amount of this pledge is approximately \$68.5 million at June 30, 2019, which is equal to the remaining principal and interest payments on these trust indentures. This pledge is in effect until the trust indentures are paid off, which is expected to be March 1, 2036 (the maturity date of the trust indentures). During the year ended June 30, 2019, the Association distributed \$6,483,319 to UCF Stadium Corporation from these sources. Distributions to the UCF Stadium Corporation occur on a monthly basis. Once annual debt service obligations are met, the UCF Stadium Corporation may distribute, subject to approval by UCF's Board of Trustees, any surplus funds to the Association. For the year ended June 30, 2019, the UCF Stadium Corporation distributed \$7,180,462 to the Association.

The Association is also committed to pay approximately \$716,350 in airplane charter fees to a local air carrier for flights that will take place in fiscal year 2020.

The Association has entered into employment contracts with various coaches and administrators. The agreements call for a minimum amount due for salaries and other benefits with clauses for bonuses and incentives as defined by the contracts. Contracts expire from 2020 to 2025. At June 30, 2019, the total minimum commitment for all contracts for each of the next five years and in the aggregate is as follows:

Year Ending June 30,	Amount
2020	\$ 10,473,567
2021	7,679,100
2022	5,998,100
2023	5,750,100
2024	4,916,967
Thereafter	2,016,000
Total	\$ 36,833,834

The Association has also entered into various operating leases for vehicles, lawn maintenance equipment, and office equipment through September 2020. Rent expense on these operating leases was \$218,066 for the year ended June 30, 2019, and is included in rents and leases on the statement of income, expenses and changes in net position.

Minimum future payments under non-cancelable operating leases are as follows:

Year Ending June 30,	Amount
2020	\$ 121,134
2021	57,558
Total	\$ 178,692

Additionally, the Association is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the ultimate resolution of such claims and lawsuits will not have a materially adverse effect on the financial position of the Association.

(Continued)

UCF ATHLETICS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Subsequent Events:

On October 2, 2019 the Association entered into a direct borrowing loan from a financial institution in the amount of \$8,550,000 to complete the buildout of phase two of the Roth Athletics Center located on the UCF campus. Principal payments are required by September 1st each year to reduce the loan balance to an agreed-upon amount negotiated annually. Interest on the loan is payable semi-annually at a fixed interest rate of 2%. The loan matures September 1, 2024 and is secured by certain pledged revenues of the Association.

**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
UCF Athletics Association, Inc.
Orlando, Florida

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 Athletics Association, Inc. (the "Association"), as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated November 21, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association'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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 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.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association'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 over financial reporting 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.



Crowe LLP

Tampa, Florida
November 21, 2019