

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

UNIVERSITY OF CENTRAL FLORIDA

For the Fiscal Year Ended
June 30, 2018



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2017-18 fiscal year, Dr. John C. Hitt served as President of the University of Central Florida and the following individuals served as Members of the Board of Trustees:

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^a Student Body President.

^b Faculty Senate Chair.

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The team leader was James H. Cole, CPA, and the audit was supervised by Brenda C. Racis, CPA.

Please address inquiries regarding this report to Jaime N. Hoelscher, CPA, Audit Manager, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

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UNIVERSITY OF CENTRAL FLORIDA
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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of the University of Central Florida (a component unit of the State of Florida) were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

We noted a certain matter involving the University's internal control over financial reporting and its operation that we consider to be a material weakness as discussed in Finding No. 2018-001.

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, as discussed in Finding No. 2018-001.

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether the University of Central Florida and its officers with administrative and stewardship responsibilities for University operations had:

- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2018. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

AUDIT METHODOLOGY

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.



Sherrill F. Norman, CPA
Auditor General

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Central Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University'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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the blended component units, which represent 0.5 percent, 7.3 percent, 0.5 percent and 0.02 percent, respectively, of the assets, liabilities, net position, and revenues reported for the University of Central Florida. In addition, we did not audit the financial statements of the aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the discretely presented component units columns. The financial statements for the blended and aggregate discretely presented component units were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those financial statements, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of

the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Central Florida and of its aggregate discretely presented component units as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2. to the financial statements, the University implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is a change in accounting principle that addresses accounting and financial reporting for other postemployment benefits. This affects the comparability of amounts reported in the 2017-18 fiscal year with the amounts reported for the 2016-17 fiscal year. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of the University's Proportionate Share of the Total Other Postemployment Benefits Liability**, **Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of University Contributions – Florida Retirement System Pension Plan**, **Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of University Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, 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 March 20, 2019, on our consideration of the University of Central Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that 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 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 University of Central Florida's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with a large initial "S" and "N".

Sherrill F. Norman, CPA
Tallahassee, Florida
March 20, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2018, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2018, and June 30, 2017.

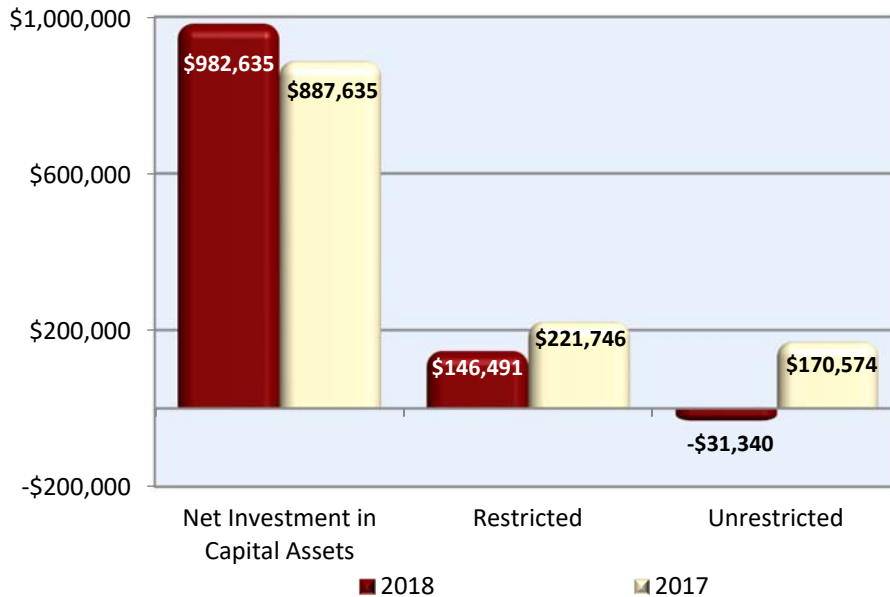
FINANCIAL HIGHLIGHTS

The University's assets and deferred outflows of resources totaled \$2 billion at June 30, 2018. This balance reflects a \$106.5 million, or 5.5 percent, increase as compared to June 30, 2017, primarily from higher construction activity. Liabilities and deferred inflows of resources increased by \$288.7 million, or 44.6 percent, totaling \$936.1 million at June 30, 2018. As a result, the University's net position decreased by \$182.2 million, resulting in a year-end balance of \$1.1 billion. The increases in liabilities and deferred inflows of resources, and decrease in net position were largely impacted by the adoption of Governmental Accounting Standards Board's (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This accounting standard requires the University, as a participating employer in the State Group Health Insurance Program, to recognize its proportionate share of the net other postemployment benefits liability of the State Group Health Insurance Program cost-sharing multiple employer defined benefit plans. Changes in liabilities are recognized through the Statement of Revenues, Expenses, and Changes in Net Position, or reported as deferred inflows or outflows of resources on the Statement of Net Position, depending on the nature of the change. The initial adoption also resulted in a decrease to beginning net position of \$220.5 million.

The University's operating revenues totaled \$550.3 million for the 2017-18 fiscal year, representing a 5.2 percent increase compared to the 2016-17 fiscal year due mainly to increases in grants and contracts and auxiliary revenues. Operating expenses totaled \$1.1 billion for the 2017-18 fiscal year, representing an increase of 8.5 percent as compared to the 2016-17 fiscal year due mainly to increases in compensation and employee benefits and scholarships, fellowships, and waivers.

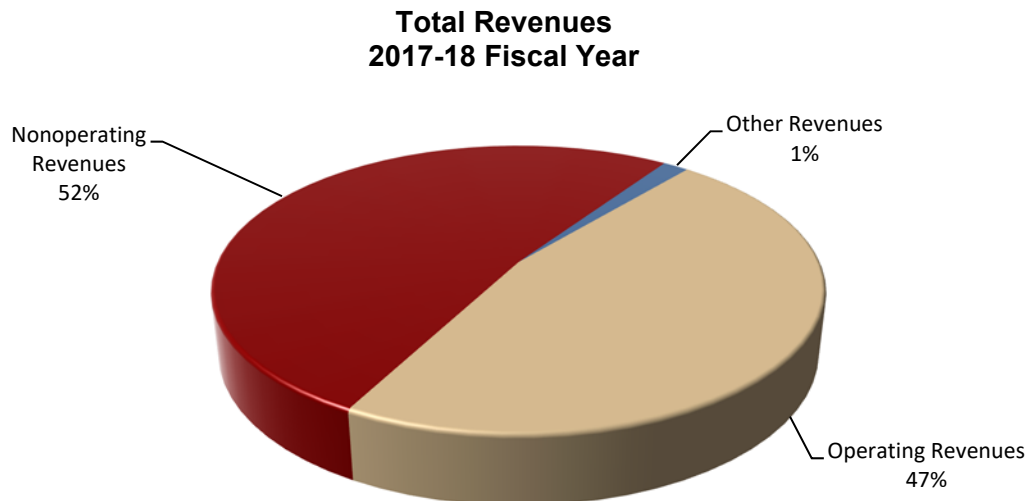
Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University's comparative total net position by category for the fiscal years ended June 30, 2018, and June 30, 2017, is shown in the following graph:

Net Position
(In Thousands)



The deficit unrestricted net position for 2018 can be attributed primarily to the full recognition of certain long-term liabilities (i.e., compensated absences payable, other postemployment benefits payable and net pension liabilities) in the current unrestricted funds that are expected to be paid over time. Additional information about the University’s deficit net position in individual funds is presented in Note 4. in the accompanying notes to financial statements.

The following chart provides a graphical presentation of University revenues by category for the 2017-18 fiscal year:



OVERVIEW OF FINANCIAL STATEMENTS

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

- Blended Component Units:
 - UCF Finance Corporation
 - University of Central Florida College of Medicine Self-Insurance Program
- Discretely Presented Component Units:
 - University of Central Florida Foundation, Inc.
 - University of Central Florida Research Foundation, Inc.
 - UCF Athletics Association, Inc.
 - UCF Convocation Corporation
 - UCF Stadium Corporation
 - Central Florida Clinical Practice Organization, Inc.

Information regarding these component units, including summaries of the blended and discretely presented component units' separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the discretely presented component units. For those component units reporting under GASB standards, MD&A information is included in their separately issued audit reports.

The Statement of Net Position

The statement of net position reflects the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the University, using the accrual basis of accounting, and presents the financial position of the University at a specified time. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, which is one indicator of the University's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the University's financial condition.

The following summarizes the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30:

Condensed Statement of Net Position at June 30

(In Thousands)

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets	\$ 628,594	\$ 602,302
Capital Assets, Net	1,147,334	1,058,909
Other Noncurrent Assets	106,460	144,896
Total Assets	<u>1,882,388</u>	<u>1,806,107</u>
Deferred Outflows of Resources	<u>151,467</u>	<u>121,206</u>
Liabilities		
Current Liabilities	123,159	111,498
Noncurrent Liabilities	760,062	534,411
Total Liabilities	<u>883,221</u>	<u>645,909</u>
Deferred Inflows of Resources	<u>52,848</u>	<u>1,449</u>
Net Position		
Net Investment in Capital Assets	982,635	887,635
Restricted	146,491	221,746
Unrestricted	(31,340)	170,574
Total Net Position	<u>\$ 1,097,786</u>	<u>\$ 1,279,955</u>

Total assets as of June 30, 2018, increased by \$76.3 million, or 4.2 percent. This increase is primarily due to higher capital related activity including building construction, acquisitions, and donations of capital assets. Major capital projects include research, academic and partnership facilities, the development of a downtown campus, and renovations and modernization of the library.

Total liabilities as of June 30, 2018, increased by \$237.3 million or 36.7 percent, deferred inflows and outflows of resources increased by \$51.4 million and \$30.3 million, respectively, and total net position decreased \$182.2 million. These changes were primarily related to annual changes in actuarial determined amounts for other postemployment benefits and pensions.

The Statement of Revenues, Expenses, and Changes in Net Position

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

The following summarizes the University's activity for the 2017-18 and 2016-17 fiscal years:

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years**

(In Thousands)

	<u>2017-18</u>	<u>2016-17</u>
Operating Revenues	\$ 550,334	\$ 523,006
Less, Operating Expenses	<u>1,100,003</u>	<u>1,013,825</u>
Operating Loss	(549,669)	(490,819)
Net Nonoperating Revenues	<u>568,965</u>	<u>485,568</u>
Income (Loss) Before Other Revenues	19,296	(5,251)
Other Revenues	<u>18,988</u>	<u>60,633</u>
Net Increase In Net Position	<u>38,284</u>	<u>55,382</u>
Net Position, Beginning of Year	1,279,955	1,224,573
Adjustment to Beginning Net Position (1)	<u>(220,453)</u>	<u>-</u>
Net Position, Beginning of Year, as Restated	<u>1,059,502</u>	<u>1,224,573</u>
Net Position, End of Year	<u>\$ 1,097,786</u>	<u>\$ 1,279,955</u>

(1) As discussed in Notes 2. and 3. of the financial statements, the University's beginning net position was decreased in conjunction with the implementation of GASB Statement No. 75.

Operating Revenues

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

The following summarizes the operating revenues by source that were used to fund operating activities for the 2017-18 and 2016-17 fiscal years:

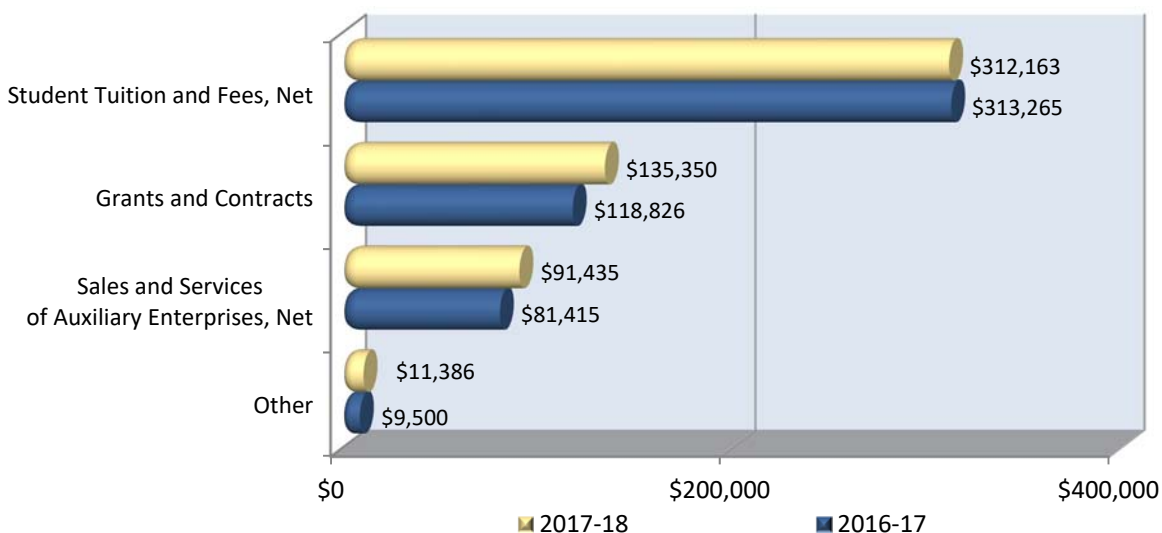
**Operating Revenues
For the Fiscal Years**

(In Thousands)

	<u>2017-18</u>	<u>2016-17</u>
Student Tuition and Fees, Net	\$ 312,163	\$ 313,265
Grants and Contracts	135,350	118,826
Sales and Services of Auxiliary Enterprises, Net	91,435	81,415
Other	<u>11,386</u>	<u>9,500</u>
Total Operating Revenues	<u>\$ 550,334</u>	<u>\$ 523,006</u>

The following chart presents the University's operating revenues for the 2017-18 and 2016-17 fiscal years:

Operating Revenues
(In Thousands)



Total operating revenues increased by \$27.3 million, or 5.2 percent. Grants and contracts increased by \$16.5 million, or 13.9 percent, primarily related to increases in Federal and private grants. Net sales and services of auxiliary enterprises increased by \$10 million, or 12.3 percent, and was primarily due to higher revenues from the College of Medicine residency program.

Operating Expenses

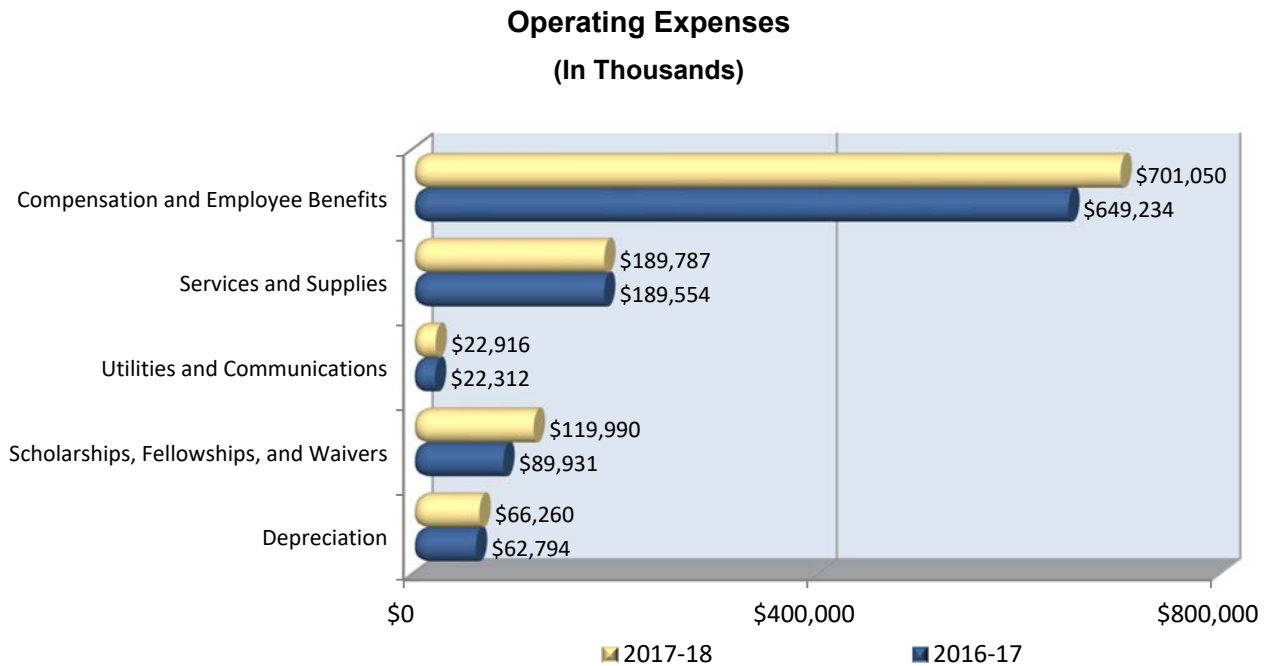
Expenses are categorized as operating or nonoperating. The majority of the University's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University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

The following summarizes operating expenses by natural classification for the 2017-18 and 2016-17 fiscal years:

Operating Expenses
For the Fiscal Years
(In Thousands)

	<u>2017-18</u>	<u>2016-17</u>
Compensation and Employee Benefits	\$ 701,050	\$ 649,234
Services and Supplies	189,787	189,554
Utilities and Communications	22,916	22,312
Scholarships, Fellowships, and Waivers	119,990	89,931
Depreciation	66,260	62,794
Total Operating Expenses	<u>\$ 1,100,003</u>	<u>\$ 1,013,825</u>

The following chart presents the University's operating expenses for the 2017-18 and 2016-17 fiscal years:



Operating expenses increased \$86.2 million, or 8.5 percent, over the 2016-17 fiscal year. Compensation and employee benefits increased by \$51.8 million. Salaries increased \$35.8 million due to investments in the University faculty hiring plan including support personnel, growth in post-doctoral medical resident programs, and annual salary increases. Retirement expenses including actuarial determined pension expenses increased \$12.5 million. Scholarships, fellowships, and waivers increased by \$30.1 million, resulting from increased awards for the Florida Bright Futures Scholarship Program, Federal Pell Grants, and Florida Student Assistance Grants.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2017-18 and 2016-17 fiscal years:

**Nonoperating Revenues (Expenses)
For the Fiscal Years
(In Thousands)**

	2017-18	2016-17
State Noncapital Appropriations	\$ 375,458	\$ 360,532
Federal and State Student Financial Aid	192,728	140,560
Investment Income	15,592	12,998
Other Nonoperating Revenues	25,766	17,694
Loss on Disposal of Capital Assets	(79)	(502)
Interest on Capital Asset-Related Debt	(7,534)	(8,014)
Other Nonoperating Expenses	(32,966)	(37,700)
Net Nonoperating Revenues	\$ 568,965	\$ 485,568

Net nonoperating revenues increased by \$83.4 million, or 17.2 percent, primarily due to an increase in Federal and State student financial aid of \$52.2 million. The University received additional funds for the Florida Bright Futures Scholarship Program, Federal Pell Grants, and Florida Student Assistance Grants in the 2017-18 fiscal year. State noncapital appropriations increased by \$14.9 million due to additional emerging pre-eminence funding and other appropriations supporting new faculty, doctoral assistantships, and scholarships.

Other Revenues

This category is composed of State capital appropriations, capital grants, contracts, donations, and fees. The following summarizes the University's other revenues for the 2017-18 and 2016-17 fiscal years:

**Other Revenues
For the Fiscal Years
(In Thousands)**

	2017-18	2016-17
State Capital Appropriations	\$ 12,472	\$ 45,552
Capital Grants, Contracts, Donations, and Fees	6,516	15,081
Total	\$ 18,988	\$ 60,633

Other revenues decreased \$41.6 million, or 68.7 percent, primarily due to a decrease in State capital appropriations.

The Statement of Cash Flows

The statement of cash flows provides information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the University's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and

use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2017-18 and 2016-17 fiscal years:

**Condensed Statement of Cash Flows
For the Fiscal Years**

(In Thousands)

	2017-18	2016-17
Cash Provided (Used) by:		
Operating Activities	\$ (440,992)	\$ (389,998)
Noncapital Financing Activities	554,407	483,367
Capital and Related Financing Activities	(110,880)	(106,644)
Investing Activities	4,226	(16,020)
Net Increase (Decrease) in Cash and Cash Equivalents	6,761	(29,295)
Cash and Cash Equivalents, Beginning of Year	19,023	48,318
Cash and Cash Equivalents, End of Year	\$ 25,784	\$ 19,023

Cash and cash equivalents increased \$6.8 million. Cash used by operating activities increased by \$51 million compared to the 2016-17 fiscal year primarily due to an increase in cash payments to and on behalf of employees for compensation and benefits. Cash inflows from noncapital financing activities increased by \$71 million primarily due to an increase in cash received from Federal and State student financial aid and State appropriations net of pass-through disbursements. Cash provided by investing activities increased by \$20.2 million primarily due to prior year purchases of long-term fixed income investments from proceeds received from liquidations of cash equivalent money-market investments.

Major sources of funds came from State noncapital appropriations (\$375.5 million), net student tuition and fees (\$310.2 million), Federal and State student financial aid (\$193 million), grants and contracts (\$135.2 million), and net sales and services of auxiliary enterprises (\$93.6 million). Major uses of funds were for payments made to and on behalf of employees (\$660.4 million), payments to suppliers (\$210.6 million), payments related to the purchase or construction of capital assets (\$144.9 million), and payments to students for scholarships and fellowships (\$120 million).

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

Capital Assets

At June 30, 2018, the University had \$2 billion in capital assets, less accumulated depreciation of \$836.1 million, for net capital assets of \$1.1 billion. Depreciation charges for the current fiscal year totaled \$66.3 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30

(In Thousands)

	<u>2018</u>	<u>2017</u>
Land	\$ 42,742	\$ 36,159
Construction in Progress	90,060	81,061
Buildings	902,373	838,249
Infrastructure and Other Improvements	37,358	31,994
Furniture and Equipment	40,909	40,482
Library Resources	26,082	24,155
Leasehold Improvements	7,163	6,088
Works of Art and Historical Treasures	647	721
Capital Assets, Net	<u><u>\$1,147,334</u></u>	<u><u>\$1,058,909</u></u>

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

Capital Expenses and Commitments

Major capital expenses through June 30, 2018, were incurred on projects completed: the UCF Interdisciplinary Research and Incubator Facility and Partnership IV Phase II, and projects currently in progress: the UCF Downtown Academic Building, John C. Hitt Library Renovations, and Trevor Colbourn Hall. The University's major construction commitments at June 30, 2018, are as follows:

	<u>Amount</u> <u>(In Thousands)</u>
Total Committed	\$ 173,872
Completed to Date	<u>(90,060)</u>
Balance Committed	<u><u>\$ 83,812</u></u>

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

Debt Administration

As of June 30, 2018, the University had \$180.6 million in outstanding capital improvement debt payable, and loans and notes payable, representing an increase of \$3.6 million, or 2 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt at June 30

(In Thousands)

	<u>2018</u>	<u>2017</u>
Capital Improvement Debt Payable	\$ 117,242	\$ 125,664
Bonds Payable	-	51,315
Loans and Notes Payable	<u>63,359</u>	<u>-</u>
Total	<u>\$ 180,601</u>	<u>\$ 176,979</u>

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the 2018-19 fiscal year. The University manages this through the continual efficient and strategic use of resources and entrepreneurial efforts by academic, administrative, and auxiliary departments. The budget that the Florida Legislature adopted for the 2018-19 fiscal year provided a 2 percent increase for State universities, including \$20 million in new recurring performance-based funding, plus \$30 million specifically aimed at meeting the State's performance goals. The University received a total of \$6 million of this new funding.

The Florida Legislature also provided \$20 million in new funding for institutions that meet emerging pre-eminence and pre-eminence metrics aimed to advance the State's national reputation for higher education. The University of Central Florida qualified for emerging pre-eminence status and received \$1.5 million of this new funding, which will be invested in initiatives to enhance the University's reputation as a global research institution and advance toward pre-eminence status.

In addition to State funding, the University relies on other revenue streams to maintain the open access to and high quality of its academic programs. Net tuition and fee revenue remained steady from the 2016-17 fiscal year to the 2017-18 fiscal year. Overall, enrollment increased 2.9 percent with a student count of approximately 66,180. The University continues to invest in recruitment, retention, and academic advising initiatives to manage enrollment and support students' success.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the University Controller, University of Central Florida, 12424 Research Parkway, Suite 300, Orlando, Florida 32826-3249.

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BASIC FINANCIAL STATEMENTS

UNIVERSITY OF CENTRAL FLORIDA A Component Unit of the State of Florida Statement of Net Position

June 30, 2018

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 15,035,677	\$ 23,148,532
Restricted Cash and Cash Equivalents	3,259,264	14,409,735
Investments	482,654,905	-
Accounts Receivable, Net	63,673,249	18,718,120
Loans and Notes Receivable, Net	1,328,258	-
Due from State	54,725,914	-
Due from Component Units	1,128,037	416,904
Due from University	-	18,549,356
Inventories	2,518,321	34,783
Other Current Assets	4,270,526	1,777,311
Total Current Assets	628,594,151	77,054,741
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	7,489,055	2,989,201
Restricted Investments	86,045,062	212,992,971
Loans and Notes Receivable, Net	4,927,741	18,894,977
Depreciable Capital Assets, Net	1,014,313,741	116,844,051
Nondepreciable Capital Assets	133,019,996	60,003,940
Due from Component Units	5,800,498	-
Other Noncurrent Assets	2,198,226	3,008,507
Total Noncurrent Assets	1,253,794,319	414,733,647
Total Assets	1,882,388,470	491,788,388
DEFERRED OUTFLOWS OF RESOURCES		
Other Postemployment Benefits	7,544,000	-
Pensions	130,985,600	-
Deferred Amount on Debt Refundings	12,936,932	5,133,159
Total Deferred Outflows of Resources	151,466,532	5,133,159
LIABILITIES		
Current Liabilities:		
Accounts Payable	15,423,789	6,554,905
Construction Contracts Payable	15,029,921	-
Salary and Wages Payable	24,792,352	-
Deposits Payable	11,253,542	-
Due to Component Units	18,549,356	416,904
Due to University	-	1,128,037
Unearned Revenue	15,858,633	13,657,058
Other Current Liabilities	2,430,622	2,514,854
Long-Term Liabilities - Current Portion:		
Capital Improvement Debt Payable	8,270,000	-
Bonds Payable	-	4,881,000
Loans and Notes Payable	2,498,000	2,737,000
Certificates of Participation Payable	-	4,355,000
Compensated Absences Payable	4,014,061	77,500
Other Postemployment Benefits Payable	3,446,000	-
Net Pension Liability	1,592,767	-
Total Current Liabilities	123,159,043	36,322,258

UNIVERSITY OF CENTRAL FLORIDA
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2018

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Capital Improvement Debt Payable	108,972,210	-
Bonds Payable	-	118,823,072
Loans and Notes Payable	60,861,000	22,992,999
Certificates of Participation Payable	-	100,040,000
Compensated Absences Payable	53,329,664	691,558
Other Postemployment Benefits Payable	297,066,000	-
Net Pension Liability	231,550,093	-
Unearned Revenues	-	27,140
Due to University	-	5,800,498
Other Noncurrent Liabilities	8,283,443	373,968
	Total Noncurrent Liabilities	248,749,235
	Total Liabilities	285,071,493
DEFERRED INFLOWS OF RESOURCES		
Other Postemployment Benefits	42,480,000	-
Pensions	10,367,486	-
	Total Deferred Inflows of Resources	-
NET POSITION		
Net Investment in Capital Assets	982,635,149	(71,227,921)
Restricted for Nonexpendable:		
Endowment	-	136,083,134
Restricted for Expendable:		
Debt Service	1,418,562	-
Loans	3,224,757	-
Capital Projects	128,591,852	693,884
Other	13,255,701	118,996,395
Unrestricted	(31,339,958)	27,304,562
	TOTAL NET POSITION	\$ 211,850,054
	\$ 1,097,786,063	\$ 211,850,054

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

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UNIVERSITY OF CENTRAL FLORIDA
A Component Unit of the State of Florida
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$169,884,143 (Pledged for Capital Improvement Debt: \$17,518,614 for Student Health and \$14,706,584 for Parking)	\$ 312,163,236	\$ -
Federal Grants and Contracts	100,966,565	-
State and Local Grants and Contracts	8,979,649	-
Nongovernmental Grants and Contracts	25,404,197	-
Sales and Services of Auxiliary Enterprises, Net (Pledged for Capital Improvement Debt: \$29,521,514 for Housing and \$6,280,813 for Parking)	91,434,807	-
Gifts and Donations	-	44,158,583
Interest on Loans and Notes Receivable	114,405	-
Other Operating Revenues: (Pledged for Capital Improvement Debt: \$399,474 for Housing and \$1,129,249 for Parking)	11,271,405	126,134,388
Total Operating Revenues	550,334,264	170,292,971
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	701,049,970	19,389,015
Services and Supplies	189,786,518	115,585,159
Utilities and Communications	22,916,333	-
Scholarships, Fellowships, and Waivers	119,990,341	-
Depreciation	66,259,952	5,674,815
Total Operating Expenses	1,100,003,114	140,648,989
Operating Income (Loss)	(549,668,850)	29,643,982
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	375,457,594	-
Federal and State Student Financial Aid	192,727,881	-
Investment Income	15,591,848	407,291
Other Nonoperating Revenues	25,766,297	14,033,750
Loss on Disposal of Capital Assets	(78,755)	-
Interest on Capital Asset-Related Debt	(7,534,030)	(9,368,779)
Other Nonoperating Expenses	(32,966,232)	(2,898,347)
Net Nonoperating Revenues	568,964,603	2,173,915
Income Before Other Revenues	19,295,753	31,817,897
State Capital Appropriations	12,472,073	-
Capital Grants, Contracts, Donations, and Fees	6,516,188	-
Additions to Permanent Endowments	-	5,693,092
Increase in Net Position	38,284,014	37,510,989
Net Position, Beginning of Year	1,279,955,049	169,386,134
Adjustment to Beginning Net Position	(220,453,000)	4,952,931
Net Position, Beginning of Year, as Restated	1,059,502,049	174,339,065
Net Position, End of Year	\$ 1,097,786,063	\$ 211,850,054

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

UNIVERSITY OF CENTRAL FLORIDA
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2018

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 310,232,223
Grants and Contracts	135,189,532
Sales and Services of Auxiliary Enterprises, Net	93,628,755
Interest on Loans and Notes Receivable	107,116
Payments to Employees	(660,449,757)
Payments to Suppliers for Goods and Services	(210,561,501)
Payments to Students for Scholarships and Fellowships	(119,990,340)
Loans Issued to Students	(321,005)
Collection on Loans to Students	1,034,355
Other Operating Receipts	10,138,651
	(440,991,971)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	375,457,594
Federal and State Student Financial Aid	193,009,852
Federal Direct Loan Program Receipts	252,634,150
Federal Direct Loan Program Disbursements	(252,634,150)
Net Change in Funds Held for Others	(2,048,956)
Other Nonoperating Disbursements	(12,011,011)
	554,407,479
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	95,059,505
State Capital Appropriations	45,969,360
Other Receipts for Capital Projects	5,408,897
Purchase or Construction of Capital Assets	(144,900,911)
Principal Paid on Capital Debt and Leases	(91,960,493)
Interest Paid on Capital Debt and Leases	(20,456,632)
	(110,880,274)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	827,249,101
Purchases of Investments	(834,196,711)
Investment Income	11,173,837
	4,226,227
Net Increase in Cash and Cash Equivalents	6,761,461
Cash and Cash Equivalents, Beginning of Year	19,022,535
Cash and Cash Equivalents, End of Year	\$ 25,783,996

UNIVERSITY OF CENTRAL FLORIDA
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2018

	<u>University</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (549,668,850)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	66,259,952
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	(3,911,636)
Inventories	(197,195)
Other Assets	(523,345)
Accounts Payable	1,829,061
Salaries and Wages Payable	1,561,362
Deposits Payable	65,730
Compensated Absences Payable	2,639,883
Unearned Revenue	3,592,790
Other Liabilities	961,308
Other Postemployment Benefits Payable	(21,716,000)
Net Pension Liability	33,539,407
Deferred Outflows of Resources Related to Other Postemployment Benefits	(4,493,000)
Deferred Inflows of Resources Related to Other Postemployment Benefits	42,480,000
Deferred Outflows of Resources Related to Pensions	(22,330,064)
Deferred Inflows of Resources Related to Pensions	8,918,626
NET CASH USED BY OPERATING ACTIVITIES	\$ (440,991,971)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES	
Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 4,185,671
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (78,755)
A donation of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 5,525,000

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of 5 years. The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations, and selecting the University President. The University President serves as the Executive Officer and the Corporate Secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees.

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

Blended Component Units. Based on the application of the criteria for determining component units, the UCF Finance Corporation (Corporation) and the University of Central Florida College of Medicine Self-Insurance Program (Program) are included within the University's reporting entity as blended component units, and are therefore reported as if they are part of the University. The Corporation's purpose is to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. The Program's purpose is to provide comprehensive general liability and professional liability coverage for the University's Trustees and students for claims and actions arising from clinical activities of the College of Medicine, College of Nursing, UCF Health Services, College of Health Professions and Sciences (previously included in the College of Health and Public Affairs), and the Central Florida Clinical Practice Organization, Inc., faculty, staff, and resident physicians. Condensed financial statements for the University's blended component units are shown in a subsequent note. The condensed financial statements are reported net of eliminations.

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following direct-support organizations (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011) and the Central Florida Clinical Practice Organization, Inc. (an affiliated organization), are included within the University reporting entity as discretely presented component units. These legally separate, not-for-profit, corporations are organized and operated to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services and are governed by separate

boards. The Statutes authorize these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- University of Central Florida Foundation, Inc. is a not-for-profit Florida corporation whose principal function is to provide charitable and educational aid to the University.
- University of Central Florida Research Foundation, Inc. was organized to promote and encourage as well as assist in, the research activities of the University's faculty, staff, and students.
- UCF Athletics Association, Inc. was organized to promote intercollegiate athletics to benefit the University and surrounding communities.
- UCF Convocation Corporation was created to finance and construct a convocation center, and to manage the Towers student housing and its related retail space on the north side of campus.
- UCF Stadium Corporation was created to finance, build, and administer an on-campus football stadium.
- Central Florida Clinical Practice Organization, Inc. is an affiliated organization component unit of the University and was formed for the purpose of supporting the medical educational program and clinical faculty within the College of Medicine.
- Limbitless Solutions, Inc. is a not-for-profit Florida corporation whose purpose is to develop affordable open source 3D printed bionic solutions for individuals with disabilities, increase accessibility with art infused bionics, and to promote access and engagement in STEM/STEAM education. Financial activities of this component unit are not included in the University's financial statements as the total assets related to this component unit represent less than one percent of the total aggregate component units' assets.

An annual audit of each organization's financial statements is conducted by independent certified public accountants. The annual reports are submitted to the Auditor General and the University Board of Trustees. Additional information on the University's discretely presented component units, including copies of audit reports, is available by contacting the University Controller. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

Basis of Presentation. The University's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

- Other Required Supplementary Information

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

The University's discretely presented component units use the economic resources measurement focus and the accrual basis of accounting, and follow GASB standards of accounting and financial reporting.

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

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

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

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

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

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand and cash in demand accounts, money market funds, and investments with original maturities of 3 months or less. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. The University also holds \$11,956,951 in money market funds and short-term investments. The money market funds and investments are permissible under the current investment policy; the primary portion of these investments are held in Rule 2a-7 mutual funds and securities rated AAA (or its equivalent) by a nationally recognized statistical rating organization. The Corporation, a blended component unit, holds \$3,259,264 in money market funds. The money market funds are uninsured, but collateralized by securities held by the financial institutions, not in the name of the Corporation. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

Cash and Cash Equivalents – Discretely Presented Component Units. Cash and cash equivalents for the University's discretely presented component units are reported as follows:

<u>Component Unit</u>	<u>Cash in Bank</u>	<u>Money Market Funds</u>	<u>Total</u>
University of Central Florida Foundation, Inc.	\$ 15,142,906	\$ 1,510,127	\$ 16,653,033
University of Central Florida Research Foundation, Inc.	372,116	-	372,116
UCF Athletics Association, Inc.	469,491	-	469,491
UCF Convocation Corporation	598,134	15,285,558	15,883,692
UCF Stadium Corporation	-	603,251	603,251
Central Florida Clinical Practice Organization, Inc.	6,565,885	-	6,565,885
Total Component Units	\$ 23,148,532	\$ 17,398,936	\$ 40,547,468

The University holds certain cash balances for various discretely presented component units. Cash amounts held for University of Central Florida Research Foundation, Inc., UCF Convocation Corporation, and UCF Stadium Corporation were \$11,180,760, \$4,563,495, and \$2,125,986, respectively.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the component unit will not be able to recover deposits.

- **University of Central Florida Foundation, Inc.** – Cash deposits consist of non-interest-bearing demand deposits, money market accounts, and cash deposits. At June 30, 2018, approximately \$15,601,453 in cash deposits were not insured by Federal deposit insurance and were not collateralized.
- **UCF Athletics Association, Inc.** – The Association does not have a deposit policy for custodial credit risk, although all demand deposits with banks are insured up to the Federal Deposit Insurance Corporation (FDIC) limits. As of June 30, 2018, \$133,483 of the Association's bank balance was exposed to custodial credit risk as uninsured and uncollateralized.

- **UCF Convocation Corporation** – At June 30, 2018, the Convocation Corporation held \$15,285,558 in a government money market fund. Money market funds are uninsured and collateralized by securities held by the institution, not in the Corporation’s name.
- **UCF Stadium Corporation** – At June 30, 2018, the Stadium Corporation held \$603,251 in a government money market fund. Money market funds are uninsured and collateralized by securities held by the institution, not in the Corporation’s name.
- **Central Florida Clinical Practice Organization, Inc.** – At June 30, 2018, the Central Florida Clinical Practice Organization, Inc. had deposits in banking institutions. A portion of the deposits, totaling \$6,352,327, were in excess of the Federal deposit insurance limit as of June 30, 2018.

Capital Assets. University capital assets consist of land, construction in progress, buildings, infrastructure and other improvements, furniture and equipment, library resources, leasehold improvements, works of art and historical treasures, and computer software and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at acquisition value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$4 million for intangible assets, which includes computer software, \$5,000 for tangible personal property, and \$250 for library resources. New buildings and improvements have a \$100,000 capitalization threshold. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 20 to 50 years
- Infrastructure and Other Improvements – 12 to 50 years
- Furniture and Equipment – 5 to 10 years
- Library Resources – 10 years
- Leasehold Improvements – the lesser of the remaining lease term, or the estimated useful life of the improvement
- Works of Art and Historical Treasures – 5 to 15 years
- Computer Software – 5 to 10 years

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable, loans and notes payable, compensated absences payable, other postemployment benefits payable, net pension liabilities, and other noncurrent liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized premium or discount. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method.

Pensions. For purposes of measuring the net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and HIS fiduciary net positions have been determined on the same basis as they are reported by the FRS and the HIS plans. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

2. Reporting Change

Governmental Accounting Standards Board Statement No. 75. The University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. This statement addresses accounting and financial reporting for postemployment benefits other than pensions (OPEB) provided to employees of state and local government employers; establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses; requires governments to report a liability, deferred outflows of resources, deferred inflows of resources, and expenses on the face of the financial statement for the OPEB they provide; and requires more extensive note disclosures and supplementary information about a government's OPEB liability.

3. Adjustments to Beginning Net Position

The beginning net position of the University was decreased by \$220,453,000 due to implementation of GASB Statement No. 75. The University's total OPEB liability reported at June 30, 2017, increased by \$223,504,000 to \$322,228,000 and the beginning balance for deferred outflows of resources was established at \$3,051,000 as of July 1, 2017, due to the transition in the valuation methods under GASB Statement No. 45 to GASB Statement No. 75.

The beginning net position of the discretely presented UCF Convocation Corporation and UCF Stadium Corporation were increased by \$4,304,506 and \$648,425, respectively, due to the implementation of GASB Statement No. 86, *Certain Debt Extinguishment Issues*. Each component unit removed the impact of previous write-offs of unamortized prepaid bond insurance costs associated with debt refundings and recalculated each deferred loss on refunding amount.

4. Deficit Net Position in Individual Funds

The University reported an unrestricted net position which included a deficit in the current funds – unrestricted as shown below:

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (155,532,914)
Auxiliary Funds	124,192,956
Total	\$ (31,339,958)

As shown in the following schedule, this deficit can be attributed primarily to the full recognition of certain long-term liabilities (i.e., compensated absences payable, OPEB payable, and net pension liabilities) in the current unrestricted funds that are expected to be paid over time:

	Amount
Total Unrestricted Net Position Before Recognition of Certain Long-Term Liabilities, Deferred Outflows and Deferred Inflows of Resources	<u>\$ 473,976,513</u>
Amount Expected to be Paid in Future Years:	
Compensated Absences Payable	57,343,725
Other Post Employment Benefits Payable and Related Deferred Outflows and Deferred Inflows of Resources	335,448,000
Net Pension Liability and Related Deferred Outflows and Deferred Inflows of Resources	<u>112,524,746</u>
Total Amount Expected to be Paid in Future Years	<u>505,316,471</u>
Total Unrestricted Net Position	<u><u>\$ (31,339,958)</u></u>

5. Investments

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

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

All of the University's recurring fair value measurements as of June 30, 2018, are valued using quoted market prices (Level 1 inputs), with the exception of corporate, municipal and other bonds, certain Federal agency obligations and certificates of deposit which are valued using matrix pricing models which may consider quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, and inputs other than quoted prices that are observable (Level 2 inputs) and investments with the State Treasury which are valued based on the University's share of the pool (Level 3 inputs).

The University's investments at June 30, 2018, are reported as follows:

Investments by fair value level	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
External Investment Pool:				
State Treasury Special Purpose Investment Account	\$ 297,957,515	\$ -	\$ -	\$ 297,957,515
SBA Debt Service Accounts	1,323,706	1,323,706	-	-
Certificates of Deposit	1,461,927	-	1,461,927	-
United States Government and Federally-Guaranteed Obligations	38,823,044	38,823,044	-	-
Federal Agency Obligations	27,317,998	461,493	26,856,505	-
Bonds and Notes	96,177,016	-	96,177,016	-
Mutual Funds				
Equities	92,898,939	92,898,939	-	-
Bonds	12,739,822	12,739,822	-	-
Total investments by fair value level	\$ 568,699,967	\$ 146,247,004	\$ 124,495,448	\$ 297,957,515

Investments held by the University's component units at June 30, 2018, are reported as follows:

Investments by fair value level	University of Central Florida Foundation, Inc.	University of Central Florida Research Foundation, Inc.	Total	Fair Value Measurements Using		
				Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity - Domestic	\$ 5,220,769	\$ 399,220	\$ 5,619,989	\$ 5,551,591	\$ 68,398	\$ -
Equity - International	27,405,051	-	27,405,051	27,405,051	-	-
Domestic - Fixed Income	36,824,207	-	36,824,207	36,824,207	-	-
Global All Assets	14,575,447	-	14,575,447	14,575,447	-	-
Real Assets	4,073,225	-	4,073,225	473,225	-	3,600,000
Total investments by fair value level	88,098,699	399,220	88,497,919	\$ 84,829,521	\$ 68,398	\$ 3,600,000
Investments measured at the net asset value (NAV)						
Equity - Domestic	7,425,643	-	7,425,643			
Equity - International	45,655,944	-	45,655,944			
Domestic - Fixed Income	4,377,176	-	4,377,176			
International Fixed Income	21,325,906	-	21,325,906			
Global All Assets	8,549,709	-	8,549,709			
Private Equity Funds	7,208,893	-	7,208,893			
Private Debt Funds	1,662,464	-	1,662,464			
Hedge Funds:						
Credit	7,686,794	-	7,686,794			
Event Driven	6,563,227	-	6,563,227			
Global Macro	5,185,778	-	5,185,778			
Long Short	2,230,741	-	2,230,741			
Long Short Credit	2,211,562	-	2,211,562			
Equity Linked	4,116,965	-	4,116,965			
Real Assets	294,250	-	294,250			
Total investments measured at the NAV	124,495,052	-	124,495,052			
Total investments	\$ 212,593,751	\$ 399,220	\$ 212,992,971			

All of the University's component units' recurring fair value measurements as of June 30, 2018, are valued using quoted market prices (Level 1 inputs), with the exception of equity investments valued quarterly by respective fund managers (Level 2 inputs) and real assets valued based on an appraisal utilizing recent sale and property comparisons of like assets (Level 3 inputs).

For the University's component units, the valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table:

Investments measured at the net asset value (NAV)	University of Central Florida Foundation, Inc.	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity - Domestic	\$ 7,425,643	\$ -	Immediate	
Equity - International	45,655,944	-	Immediate	
Domestic - Fixed Income	4,377,176	-	Immediate	
International Fixed Income	21,325,906	-	Monthly/Immediate	30 Days
Global All Assets	8,549,709	-	Immediate	
Private Equity Funds	7,208,893	10,626,424		
Private Debt Funds	1,662,464	4,062,135		
Hedge Funds:				
Credit	7,686,794	-	Monthly/Quarterly	30-90 Days
Event Driven	6,563,227	-	Quarterly	60-90 Days
Global Macro	5,185,778	-	Monthly/Quarterly	30-62 Days
Long Short	2,230,741	-	Monthly	30 Days
Long Short Credit	2,211,562	-	Monthly	30 Days
Equity Linked	4,116,965	-	Monthly/Quarterly	30-60 Days
Real Assets	294,250	2,775,706		
Total investments measured at the NAV	\$ 124,495,052	\$ 17,464,265		

Net Asset Value.

GASB Statement No. 72, *Fair Value Measurement and Application*, permits the fair value of certain equity and debt investments that do not have readily determinable fair values to be based on their net asset value (NAV) per share. The investments held at net asset value reflect:

Domestic Equity and International Equity: These funds are operated by money managers and can be actively managed or passively managed to an index. These funds are privately placed and the fair value cannot be observed through observable inputs through an exchange for the overall fund. The fair values of both funds are provided by the money managers which use a quoted price in active markets for the underlying assets.

Domestic Fixed Income: The fund is operated by a money manager and is passively managed to an index. The fund is privately placed, and its fair value cannot be observed through observable inputs through an exchange for the overall fund. The fair value of the fund is provided by the money manager which uses a quoted price in the active markets for the underlying assets.

International Fixed Income: Two of the funds invest in fixed income bonds ranging in credit ratings focused on domestic and international investments. One fund utilizes a focus on credit driven strategies for the underlying investments and can contain both domestic and international investments in the portfolio. These funds are privately placed and the fair value cannot be observed through observable inputs through an exchange for the overall fund. The fair values of the three funds are provided by the money managers which use a quoted price in active markets for the underlying assets.

Global All Assets: The fund invests in a global strategy including domestic, international, and global companies and is privately placed, and the fair value cannot be observed through observable inputs

through an exchange for the overall fund. The fair value of this fund is provided by the money manager which uses a quoted price in active markets for the underlying assets.

Private Equity and Private Debt Funds: Private equity and private debt includes distinct limited partnerships or limited liability companies. The investments can never be redeemed with these funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets or notes of the fund. Private equity and private debt are not traded on a public, primary exchange. Private equity can include equity rights to private companies, capital lent to companies, or other privately held securities. Private equity commitments are not drawn immediately, therefore the capital deployed at any one time is likely less than the total contractual commitment. Private debt funds aim to take advantage of structural imbalances between demand and supply of credit for consumers, small and medium enterprises, and trade finance consisting of private notes and bonds with equity components. In this portfolio, private equity capital and private debt are invested with general partners of a legally formed limited partnership, whereby several investors pool their capital as limited partners. The fair values of the investments in this type have been determined using recent observable transaction information for similar investments and nonbinding bids received from potential buyers of the investments.

Credit and Long/Short Credit Hedge Funds: The credit linked class of hedge funds seeks to profit from the mispricing of related debt securities. Returns are not generally dependent on the general direction of market movements. This strategy utilizes quantitative and qualitative analysis to identify securities or spreads between securities that deviate from their fair value and/or historical norms. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

Event Driven Hedge Funds: The event driven hedge funds class includes investments in hedge funds that invest across the capital structure in equity and debt securities. Managers invest in situations with the expectation that a near term event will act as a catalyst changing the market's perception of a company, thereby increasing or decreasing the value of its equity or debt. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

Global Macro Hedge Funds: The global macro hedge fund class includes hedge funds that trade highly liquid instruments, long and short, including currencies, commodities, fixed income instruments and equity indices. Two types of strategies are employed in this portfolio: discretionary strategies that employ broad analysis of economic, financial and political data to identify themes, and systematic strategies that use algorithmic models to analyze historical data, both technical and fundamental. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

Long/Short Hedge Funds: The equity long/short hedge fund class includes investments in hedge funds that invest both long and short stocks and equity indices. Management of the hedge funds has the ability to shift investments across a variety of stocks, equity indices, and to a lesser extent other securities from a net long position to a net short position. In this portfolio, the managers are focused primarily on the United States, Europe, and Asia. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

Equity Linked Hedge Funds: The equity linked class of hedge funds includes investments in debt instruments and options on equities. The equities options provide investors with principle protection while

providing exposure to equities. Returns are dependent on performance of the equities options. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

Real Assets: Real assets include one investment vehicle consisting of a distinct limited liability company. The investments can never be redeemed with these funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets or notes of the fund. Real assets consist of capital not traded on a public, primary exchange. For purposes of this portfolio, real assets include private holdings in domestic and international real estate. Real asset commitments are not drawn immediately, therefore the capital deployed at any one time is likely less than the total contractual commitment. In this portfolio, real assets capital is invested with general partners of a legally formed limited partnership, whereby several investors pool their capital as limited partners. The fair values of the investments in this type have been determined using recent observable transaction information for similar investments and nonbinding bids received from potential buyers of the investments.

External Investment Pools.

The University reported investments at fair value totaling \$297,957,515 at June 30, 2018, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. The State Treasury SPIA investment pool carried a credit rating of A+f by Standard & Poor's, had an effective duration of 3 years, and fair value factor of 0.9872 at June 30, 2018. Participants contribute to the State Treasury SPIA investment pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

State Board of Administration Debt Service Accounts.

The University reported investments totaling \$1,323,706 at June 30, 2018, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. The University's investments consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value. The University relies on policies developed by the SBA for managing interest rate risk and credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Other Investments.

The University and its discretely presented component units invested in various debt and equity securities, mutual funds, and certificates of deposit. The following risks apply to the University's and its discretely presented component units' investments other than external investment pools.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Pursuant to Section 218.415(16), Florida Statutes, the University's investments in securities must provide sufficient liquidity to pay obligations as they come due. Investments of the University and its component units in debt securities, bond mutual funds, and debt related hedge funds, and their future maturities at June 30, 2018, are as follows:

University Debt Investments Maturities

Investment Type	Fair Value	Investments Maturities (In Years)		
		Less Than 1	1 - 5	More Than 5
United States Government and Federally-Guaranteed Obligations	\$ 38,823,044	\$ 8,132,949	\$ 29,754,027	\$ 936,068
Federal Agency Obligations	27,317,998	161,358	11,598,556	15,558,084
Bonds and Notes	96,177,016	10,314,503	67,677,669	18,184,844
Mutual Funds - Bonds	12,739,822	512,849	5,625,716	6,601,257
Total	\$ 175,057,880	\$ 19,121,659	\$ 114,655,968	\$ 41,280,253

Component Units' Debt Investments Maturities

Investment Type	Fair Value	Investments Maturities (In Years)			Investments Not Directly Subject To Interest Rate Risk (1)
		Less Than 1	1 - 5	More Than 5	
Domestic Fixed Income	\$ 41,201,383	\$ -	\$ 31,707,453	\$ 5,116,754	\$ 4,377,176
International Fixed Income	21,325,906	-	-	-	21,325,906
Global All Assets	23,125,156	-	-	-	23,125,156
Private Debt	1,662,464	-	-	-	1,662,464
Hedge Funds	27,995,067	-	-	-	27,995,067
Total	\$ 115,309,976	\$ -	\$ 31,707,453	\$ 5,116,754	\$ 78,485,769

(1) Certain UCF Foundation alternative investments are held in funds and are not directly subject to credit risk. Alternative investments consist of funds that may include underlying securities including equities, fixed income, real estate, and other types of investments. The investments listed above with quality ratings reflect the credit risk related to debt-type securities that are directly held by the Foundation.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the United States government or obligations explicitly guaranteed by the United States government are not considered to have credit risk and do not require disclosure of credit quality. The University's investment policy limits fixed income exposure to investment grade assets and provides credit quality guidelines applicable to the investment objective. The University's component

units' investment policies provide information on asset classes, target allocations, and ranges of acceptable investment categories. The following schedule represents the ratings at June 30, 2018, of the University's and its component units' debt instruments using Moody's and Standard & Poor's nationally recognized rating agencies:

University Debt Investments Quality Ratings

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Less Than A</u>
Federal Agency Obligations	\$ 27,317,998	\$ 27,317,998	\$ -	\$ -	\$ -
Bonds and Notes	96,177,016	33,327,844	17,612,842	43,203,950	2,032,380
Mutual Funds - Bonds	12,739,822	-	2,193,322	10,546,500	-
Total	\$ 136,234,836	\$ 60,645,842	\$ 19,806,164	\$ 53,750,450	\$ 2,032,380

Component Units' Debt Investments Quality Ratings

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Less Than A</u>	<u>Investments Not Directly Subject To Credit Risk (1)</u>
Domestic Fixed Income	\$ 41,201,383	\$ 4,936,250	\$ 22,706,796	\$ 4,312,601	\$ 4,868,560	\$ 4,377,176
International Fixed Income	21,325,906	-	-	-	-	21,325,906
Global All Assets	23,125,156	-	-	-	-	23,125,156
Private Debt	1,662,464	-	-	-	-	1,662,464
Hedge Funds	27,995,067	-	-	-	-	27,995,067
Total	\$ 115,309,976	\$ 4,936,250	\$ 22,706,796	\$ 4,312,601	\$ 4,868,560	\$ 78,485,769

(1) Certain UCF Foundation alternative investments are held in funds and are not directly subject to credit risk. Alternative investments consist of funds that may include underlying securities including equities, fixed income, real estate, and other types of investments. The investments listed above with quality ratings reflect the credit risk related to debt-type securities that are directly held by the Foundation.

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

6. Receivables

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2018, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Student Tuition and Fees	\$ 30,720,327
Contracts and Grants	25,843,270
Other	<u>7,109,652</u>
Total Accounts Receivable	<u>\$ 63,673,249</u>

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

Allowance for Doubtful Receivables. Allowances for doubtful accounts, and loans and notes receivable, are reported based on management's best estimate as of fiscal year end considering type, age, collection history, and other factors considered appropriate. Accounts receivable and loans and notes receivable are reported net of allowances of \$2,243,573 and \$813,915, respectively, at June 30, 2018.

7. Due From State

The amount due from State consists of \$54,725,914 of Public Education Capital Outlay, Capital Improvement Fee Trust Fund, or other allocations due from the State to the University for construction or purchase of University facilities.

8. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2018, is shown in the following table:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 36,158,790	\$ 6,582,763	\$ -	\$ 42,741,553
Works of Art and Historical Treasures	218,000	-	-	218,000
Construction in Progress	81,060,507	114,462,132	105,462,196	90,060,443
Total Nondepreciable Capital Assets	\$ 117,437,297	\$ 121,044,895	\$ 105,462,196	\$ 133,019,996
Depreciable Capital Assets:				
Buildings	\$ 1,280,736,374	\$ 105,242,054	\$ -	\$ 1,385,978,428
Infrastructure and Other Improvements	61,398,415	7,946,159	-	69,344,574
Furniture and Equipment	219,142,437	16,873,663	6,258,974	229,757,126
Library Resources	133,044,526	6,736,286	-	139,780,812
Leasehold Improvements	13,635,574	2,408,381	-	16,043,955
Works of Art and Historical Treasures	1,677,354	-	-	1,677,354
Computer Software and Other Capital Assets	7,850,435	-	-	7,850,435
Total Depreciable Capital Assets	1,717,485,115	139,206,543	6,258,974	1,850,432,684
Less, Accumulated Depreciation:				
Buildings	442,487,657	41,118,116	-	483,605,773
Infrastructure and Other Improvements	29,404,555	2,582,530	-	31,987,085
Furniture and Equipment	178,660,353	16,341,903	6,154,567	188,847,689
Library Resources	108,888,933	4,809,859	-	113,698,792
Leasehold Improvements	7,547,874	1,333,028	-	8,880,902
Works of Art and Historical Treasures	1,173,751	74,516	-	1,248,267
Computer Software and Other Capital Assets	7,850,435	-	-	7,850,435
Total Accumulated Depreciation	776,013,558	66,259,952	6,154,567	836,118,943
Total Depreciable Capital Assets, Net	\$ 941,471,557	\$ 72,946,591	\$ 104,407	\$ 1,014,313,741

9. Unearned Revenue

Unearned revenue at June 30, 2018, includes grant and contract prepayments, auxiliary prepayments, and student tuition and fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2018, the University reported the following amounts as unearned revenue:

<u>Description</u>	<u>Amount</u>
Auxiliary Prepayments	\$ 9,377,959
Grant and Contracts	5,593,659
Student Tuition and Fees	887,015
Total Unearned Revenue	\$ 15,858,633

10. Deferred Outflow / Inflow of Resources

The deferred outflows and inflows related to pensions are an aggregate of items related to pensions as calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Total deferred outflows of resources related to pensions were \$130,985,600 and deferred inflows of

resources related to pensions were \$10,367,486 for the year ended June 30, 2018. Note 12. includes a complete discussion of defined benefit pension plans.

The deferred outflows and inflows related to Other Postemployment Benefits (OPEB) are an aggregate of items related to OPEB as calculated in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits administered by the State Group Health Insurance Program. Total deferred outflows of resources related to OPEB were \$7,544,000 and deferred inflows of resources related to OPEB were \$42,480,000 for the year ended June 30, 2018. Note 11. includes a complete discussion of Other Postemployment Benefits.

The total deferred outflows of resources related to the deferred loss on debt refunding's were \$12,936,932 for the year ended June 30, 2018. The deferred loss was created as a result of the UCF Finance Corporation debt refinancing, which terminated the UCF Finance Corporation's interest rate swap liability at a cost of \$13,447,600. The deferred loss will be amortized as a component of interest expense over the remaining life of the UCF Finance Corporation's debt refinancing.

11. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2018, include capital improvement debt payable, loans and notes payable, compensated absences payable, other postemployment benefits payable, net pension liability, and other noncurrent liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2018, is shown in the following table:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Capital Improvement Debt Payable	\$ 125,664,116	\$ 28,045,000	\$ 36,466,906	\$ 117,242,210	\$ 8,270,000
Bonds Payable	51,315,000	-	51,315,000	-	-
Loans and Notes Payable	-	63,420,513	61,513	63,359,000	2,498,000
Compensated Absences Payable	54,725,455	6,806,246	4,187,976	57,343,725	4,014,061
Other Postemployment Benefits Payable (1)	322,228,000	23,815,000	45,531,000	300,512,000	3,446,000
Net Pension Liability	199,603,453	152,562,429	119,023,022	233,142,860	1,592,767
Interest Rate Swap	12,550,585	781,216	13,331,801	-	-
Other Noncurrent Liabilities	7,464,053	1,740,792	921,402	8,283,443	-
Total Long-Term Liabilities	\$ 773,550,662	\$ 277,171,196	\$ 270,838,620	\$ 779,883,238	\$ 19,820,828

(1) OPEB Payable beginning balance adjusted for adoption of GASB Statement No. 75, as described in Note 3.

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2018:

Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Student Housing Debt:				
2002 - Housing	\$ 14,055,000	\$ 1,140,000	4.25	2019
2007A - Housing	38,780,000	1,830,000	5.25	2019
2012A - Housing	66,640,000	60,411,476	3 to 5	2042
2018A - Housing	23,255,000	25,844,412	4 to 5	2030
Total Student Housing Debt	142,730,000	89,225,888		
Student Health Center Debt:				
2004A	8,000,000	3,150,000	4.5 to 5	2024
Parking Garage Debt:				
2010B - Parking Garage VI	11,140,000	9,720,000	4.9 to 6.2	2029
2011A - Parking Garage	11,005,000	3,398,088	3 to 5	2022
2012A - Parking Garage	7,860,000	6,533,585	3 to 5	2032
2018A - Parking Garage	4,790,000	5,214,649	5	2024
Total Parking Garage Debt	34,795,000	24,866,322		
Total Capital Improvement Debt	\$ 185,525,000	\$ 117,242,210		

(1) Amount outstanding includes unamortized discounts and premiums.

The University extinguished long-term capital improvement debt obligations by the issuance of new long-term capital improvement debt instruments as follows:

- On March 15, 2018, the Florida Board of Governors issued \$23,255,000 of University of Central Florida Dormitory Revenue Refunding Bonds, Series 2018A, with a net premium of \$3,179,007, and interest rates ranging from 4 to 5 percent. The University's portion of the refunding bonds, \$26,434,007, was used to partially defease \$2,435,000 of the outstanding Capital Improvement Dormitory Revenue Bonds, Series 2002 and 23,630,000 of the outstanding Capital Improvement Dormitory Revenue Bonds, Series 2007A. Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's statement of net position. As a result of the refunding, the University reduced its capital improvement debt service requirement by \$3,977,202 over the next 12 years and obtained an economic gain of \$3,439,521. At June 30, 2018, the outstanding balance of the defeased debt was \$25,844,412.
- On June 21, 2018, the Florida Board of Governors issued \$4,790,000 of University of Central Florida Parking Facility Revenue Refunding Capital Improvement Bonds, Series 2018A, with a net premium of \$476,498, and an interest rate of 5 percent. The University's portion of the refunding bonds, \$5,266,498, was used to defease \$5,220,000 of the outstanding Capital Improvement Parking Facility Revenue Bonds, Series 2004A. Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's statement of net position. As a result of the refunding, the University reduced its capital improvement debt service requirement by \$323,112 over the next 6 years and obtained an economic gain of \$295,881. At June 30, 2018, the outstanding balance of the defeased debt was \$5,214,649.

The University has pledged a portion of future housing rental revenues, parking revenues, and health service facility fees based on credit hours to repay \$185,525,000 in capital improvement revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student housing, student health facilities, and student parking garages. The bonds are payable solely from housing rental revenues, parking and transportation fees, and student health fees and are payable through 2042. The University has committed to appropriate each year amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$152,905,301, and principal and interest paid for the current year totaled \$13,950,116 excluding refunding defeasances. During the 2017-18 fiscal year, operating revenues generated from housing rentals, parking revenues, and student health fees totaled \$29,920,988, \$22,116,646, and \$17,518,614, respectively.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2018, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 8,270,000	\$ 4,825,193	\$ 13,095,193
2020	8,410,000	4,446,040	12,856,040
2021	8,225,000	4,034,658	12,259,658
2022	7,385,000	3,652,328	11,037,328
2023	7,195,000	3,286,563	10,481,563
2024-2028	33,195,000	11,578,154	44,773,154
2029-2033	19,390,000	5,608,804	24,998,804
2034-2038	9,885,000	3,118,969	13,003,969
2039-2042	9,565,000	834,592	10,399,592
Subtotal	111,520,000	41,385,301	152,905,301
Net Discounts and Premiums	5,722,210	-	5,722,210
Total	<u>\$ 117,242,210</u>	<u>\$ 41,385,301</u>	<u>\$ 158,627,511</u>

Loans and Notes Payable. During the 2007 fiscal year, one of the University's blended component units, the UCF Finance Corporation (Corporation), issued \$60 million in bonds to finance the construction of the Burnett Biomedical Sciences Building, part of the University's medical school. The Corporation entered into an interest rate swap agreement in connection with the bond issuance as a means to lower its borrowing costs when compared with fixed-rate bonds at the time of their issuance.

In September 2017, the Corporation entered into a \$63,359,000 Refunding Term Loan, Series 2017, with a bank. The loan will mature on July 1, 2037, and bear interest at a fixed rate of 2.4 percent per annum with a 15-year interest put option. The loan is secured by the University's indirect cost revenues received by the University from Federal, State, and private grants. Proceeds of \$63,359,000 from the term loan, plus an additional \$918,460 contributed from the Corporation were used to purchase \$50,627,660 in U.S. Treasury State and Local Government Securities, to pay \$13,447,600 to terminate the interest rate swap liability, and to fund \$202,200 of cost issuance expenses. The payment of the swap is included in Interest Paid on Capital Debt and Leases in the Statement of Cash Flows. The U.S. Treasury State and Local Government Securities were placed in an irrevocable trust with an escrow agent to provide for all future

debt service payments on the Series 2007 bonds, which defeased the bonds. The trust assets and the liability for the defeased bonds are not included in the statement of net position. The trust extinguished the defeased bonds on October 20, 2017. As a result of the refinancing, the Finance Corporation reduced its debt service requirement by \$5,804,859 over the next 20 years and obtained an economic gain of \$4,315,688.

The University agreed to use a ground sublease to lease to its blended component unit, the Corporation, a parcel of property located in Orange County, Florida, where approximately 198,000 square feet of classroom, laboratory, and administrative office space, together with related infrastructure was constructed. The facilities are used solely for education and research purposes and are operated and managed by the University. The University and the Corporation entered into an agreement whereby the Corporation leases the facilities to the University for the occupancy of the facilities. The University has agreed to pay a base rent equal to all amounts due and payable under the term loan.

Annual requirements to amortize the outstanding term loan as of June 30, 2018, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2019	\$ 2,498,000	\$ 1,490,640	\$ 3,988,640
2020	2,559,000	1,429,956	3,988,956
2021	2,621,000	1,367,796	3,988,796
2022	2,684,000	1,304,136	3,988,136
2023	2,750,000	1,238,928	3,988,928
2024-2028	14,783,000	5,159,700	19,942,700
2029-2033	16,670,000	3,274,680	19,944,680
2034-2037	18,794,000	1,149,264	19,943,264
Total	\$ 63,359,000	\$ 16,415,100	\$ 79,774,100

On March 8, 2018, the Corporation entered into a note with a bank for up to \$20,000,000 to secure the construction commitments for a new University Downtown campus education facility. The note bears a variable rate of interest equal to a per annum rate of 81 percent multiplied by the sum of the LIBOR plus 0.50 percent and is subject to adjustment to reflect changes in the LIBOR rate. The rate on June 30, 2018, was 2.74 percent. The balance of the note was \$0 as of June 30, 2018. Payments will be made on an annual basis on March 8 of each year beginning March 8, 2019.

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors' Regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2018, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$57,343,725. The current portion of the compensated absences liability,

\$4,014,061, is the amount expected to be paid in the coming fiscal year and is based on actual payouts over the last 3 years calculated as a percentage of those years' total compensated absences liability.

Other Postemployment Benefits Payable. The University follows GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits administered by the State Group Health Insurance Program.

General Information about the OPEB Plan

Plan Description. The Division of State Group Insurance's Other Postemployment Benefits Plan (OPEB Plan) is a multiple-employer defined benefit plan administered by the State of Florida. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program. Retirees and their eligible dependents shall be offered the same health and hospitalization insurance coverage as is offered to active employees at a premium cost of no more than the premium cost applicable to active employees. A retiree means any officer or employee who retires under a State retirement system or State optional annuity or retirement program or is placed on disability retirement and who begins receiving retirement benefits immediately after retirement from employment. In addition, any officer or employee who retires under the Florida Retirement System Investment Plan is considered a "retiree" if he or she meets the age and service requirements to qualify for normal retirement or has attained the age of 59.5 years and has the years of service required for vesting. The University subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because retiree healthcare costs are generally greater than active employee healthcare costs. No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75. The OPEB Plan contribution requirements and benefit terms necessary for funding the OPEB Plan each year is on a pay-as-you-go basis as established by the Governor's recommended budget and the General Appropriations Act. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible.

Benefits Provided. The OPEB Plan provides healthcare benefits for retirees and their dependents. The OPEB Plan only provides an implicit subsidy as described above.

Proportionate Share of the Total OPEB Liability

The University's proportionate share of the total OPEB liability of \$300,512,000 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017. At June 30, 2018, the University's proportionate share, determined by its proportion of total benefit payments made, was 2.78 percent, which was an increase of 0.05 from its proportionate share measured as of June 30, 2017.

Actuarial Assumptions and Other Inputs. The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.60 percent
Payroll Growth	3.25 percent
Discount rate	3.58 percent
Healthcare cost trend rates	
PPO Plan	7.8 percent for 2018, decreasing to an ultimate rate of 3.8 percent for 2076 and later years
HMO Plan	5.2 percent for 2018, decreasing to an ultimate rate of 3.8 percent for 2076 and later years
Retirees' share of benefit-related costs	100 percent of projected health insurance premiums for retirees

The discount rate was based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

While an experience study had not been completed for the OPEB Plan, the actuarial assumptions that determined the total OPEB liability for the OPEB Plan were based on certain results of the most recent experience study for the FRS Plan.

The following changes have been made since the prior valuation:

- The census data reflects changes in status for the 24-month period since July 1, 2015.
- The annual per capita claims costs have been updated to reflect current age-adjusted premiums.
- The premium rates have been updated to use the rates effective for 2017.
- Health care inflation rates have been updated to reflect recent healthcare trend rate surveys, blended with the long-term rates from the Getzen model published by the Society of Actuaries. Additionally, the updated trend rates reflect the information from the Report on the Financial Outlook for the Fiscal Years Ending June 30, 2017 through June 30, 2023, as adopted August 3, 2017 by the Self-Insurance Estimated Conference.
- The active mortality rates have been updated to use rates mandated by Chapter 2015-157, Laws of Florida for pension plans. This law mandates the use of the assumption used in either of the two most recent valuations of the Florida Retirement System (FRS). The rates are those outlined in Milliman's July 1, 2016 FRS actuarial valuation report.
- The discount rate as of the measurement date for GASB Statement No. 75 purposes is 3.58 percent. The prior GASB Statement No. 45 valuation used 4.00 percent. The GASB Statement No. 75 discount rate is based on the 20-year municipal bond rate as of June 29, 2017.

Sensitivity of the University's Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate. The following table presents the University's proportionate share of the total OPEB liability, as well as what the University's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

	<u>1% Decrease (2.58%)</u>	<u>Current Discount Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
University's proportionate share of the total OPEB liability	\$374,009,000	\$300,512,000	\$244,398,000

Sensitivity of the University's Proportionate Share of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following table presents the University's proportionate share of the total OPEB liability, as well as what the University's proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
University's proportionate share of the total OPEB liability	\$239,181,000	\$300,512,000	\$383,830,000

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.

For the fiscal year ended June 30, 2018, the University recognized OPEB expense of \$19,854,000. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change of assumptions	\$ -	\$ 42,480,000
Changes in proportionate share	3,961,000	-
Transactions subsequent to the measurement date	3,583,000	-
Total	<u>\$ 7,544,000</u>	<u>\$ 42,480,000</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$3,583,000 resulting from transactions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the total OPEB liability and included in OPEB expense in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ (5,503,000)
2020	(5,503,000)
2021	(5,503,000)
2022	(5,503,000)
2023	(5,503,000)
Thereafter	(11,004,000)
Total	\$ (38,519,000)

Net Pension Liability. As a participating employer in the Florida Retirement System (FRS), the University recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2018, the University's proportionate share of the net pension liabilities totaled \$233,142,860. Note 12. includes a complete discussion of defined benefit pension plans.

Interest Rate Swap. As described previously in the Loans and Notes Payable section above, the Corporation's interest rate swap liability was terminated in September 2017.

Other Noncurrent Liabilities. Other noncurrent liabilities primarily consist of the liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan Program. Under the Perkins Loan program, the University receives Federal capital contributions that must be returned to the Federal Government if the program has excess cash or the University ceases to participate in the program. Federal capital contributions held by the University totaled \$6,413,545 as of June 30, 2018.

Certificate of Participation Payable and Bonds Payable – Component Units.

UCF Convocation Corporation

During the 2013-14 and 2014-15 fiscal years, the UCF Convocation Corporation issued two refunding certificates of participation, Series 2014A for \$58,645,000 and Series 2014B for \$58,930,000 related to the construction of four residential housing towers, two adjacent parking facilities, and certain surrounding commercial retail space during the 2004-05 and 2005-06 fiscal years. The refunding certificates will mature on October 1, 2034, and October 1, 2035, respectively, and bear interest at a fixed rate of 3.61 and 3.80 percent, respectively, per annum.

During the 2015-16 fiscal year, the UCF Convocation Corporation issued a \$48,385,000 Refunding Revenue Bond, Series 2015A and a \$34,775,000 Taxable Refunding Revenue Bond, Series 2015B, to a bank, related to the acquisition, construction, and installation of a new convocation center, renovation of the existing University Arena, and construction of related infrastructure during the 2005-06 fiscal year. The bonds will mature on October 1, 2035, and bear interest at fixed rates ranging from 2 to 5 percent per annum.

The outstanding balance of UCF Convocation Corporation certificates and revenue bonds at June 30, 2018, was \$104,395,000 and \$76,785,000, respectively, before an unamortized premium of \$976,067.

The University entered into an operating agreement with the UCF Convocation Corporation whereby the UCF Convocation Corporation will be solely responsible for management and operations of the

convocation center and related facilities. The University assigned its rights, title, and interest in revenues generated from use of the facilities to the UCF Convocation Corporation and granted it the right to pledge revenues to secure repayment of the refunding revenue bonds. The University retained the right for priority use of the facilities for a period of at least 100 days annually. In exchange, the University agreed to pay UCF Convocation Corporation \$2,200,000 per year for the term of the agreement. The term of the agreement ends in 2036 and cannot be terminated prior to the time that all related bonds have been paid in full. Amounts paid to UCF Convocation Corporation for the fiscal year ended June 30, 2018, totaled \$2,200,000.

The University entered into a support agreement with the UCF Convocation Corporation such that it will fund certain deficiencies that may arise in the event the corporation is unable to make the minimum payments on the certificates or bonds. The University is obligated only to the extent it has legally available revenues to cover the unpaid amounts. In the event of certain deficiencies for debt service coverage requirements or reserve account shortfalls, the University agrees to defer collecting certain expenditures to cover any such deficiencies.

In fiscal year 2018, the UCF Convocation Corporation met requirements necessary to release certain restricted funds held by the trustee. The Corporation's governing board made the decision to remit a portion of these funds back to the University. Transfers to the University totaled \$704,711 for fiscal year ended June 30, 2018.

UCF Stadium Corporation

During the 2015-16 fiscal year, the UCF Stadium Corporation issued Series 2015A tax-exempt refunding revenue bonds for \$33,995,000 with a net premium of \$2,332,576, Series 2015B taxable refunding revenue bonds for \$10,250,000, and a Series 2015C non-taxable refunding revenue bond for \$3,810,000, to a bank, related to the construction of a football stadium on the campus at the University. The bonds include both term and serial bonds and are secured by a pledge from the UCF Athletics Association, Inc. of gross ticket revenues, rent, away game guarantees, conference distributions, and sponsorship revenues. The bonds bear fixed interest rates that range from 2.75 percent to 5.15 percent, and maturity dates that range from March 2029 to March 2036.

The outstanding balance of all UCF Stadium Corporation revenue bonds at June 30, 2018, was \$43,908,000, before an unamortized premium of \$2,035,005.

The University entered into a support agreement with the UCF Stadium Corporation such that it will fund certain deficiencies that may arise in the event either corporation is unable to make the minimum payments on the bonds. In addition, if the Corporation has deficiencies for debt service coverage or reserve account shortfalls, the University agrees to transfer funds to cover any such deficiencies. The University is obligated only to the extent it has legally available revenues to cover the unpaid amounts.

Loans and Notes Payable – Component Units.

UCF Foundation, Inc.

During the 2004-05 fiscal year, the University of Central Florida Foundation, Inc. entered into a note with a bank for the purchase of land and buildings. The note is secured by the land, buildings, and lease revenues. In May 2017, the note was refinanced to a 3.34 percent fixed rate. The principal balance at

the time of the refinance was \$7,535,000 with the note still maturing on April 1, 2029. As of June 30, 2018, the remaining outstanding principal was \$7,015,000.

During the 2009-10 fiscal year, the University of Central Florida Foundation, Inc. entered into a note with a bank for \$19,925,000. The note is comprised of a tax-exempt portion with a fixed rate of 4.96 percent and a taxable portion with a fixed rate of 5.83 percent. The note is secured by buildings and lease revenue. As of June 30, 2018, the taxable note was fully repaid and the remaining outstanding principal for the tax-exempt note was \$12,440,000.

UCF Athletics Association, Inc.

During the 2014-15 fiscal year, the UCF Athletics Association, Inc. modified a construction line of credit with a local bank to a line of credit promissory note. The note matures June 2033, and the repayment schedule assumes the agreement is renewed annually. If the agreement is not renewed, the entire balance will be due in full at that time. On July 1, 2018, the UCF Athletics Association, Inc. renewed the agreement until July 2019, which carries interest at 67 percent of LIBOR plus 1.34 percent (2.76 percent at June 30, 2018). The note is secured by an amount not to exceed 5 percent of the prior year's collection of student athletic fees and conference payments from the American Athletic Conference. As of June 30, 2018, the amount outstanding on the note was \$5,654,999.

In June 2018, the UCF Athletics Association, Inc. also 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 percent (4.13 percent at June 30, 2018). The line is secured by all contract royalties under a multimedia agreement, as well as, all NCAA grant-in-aid and sports sponsorship distributions. As of June 30, 2018, there was \$620,000 outstanding on the operating line of credit.

Due to University – Component Units.

Three of its component units reported moneys due to the University totaling \$6,928,535. The UCF Athletics Association, Inc. received several loans from the University between 2004 and 2007. In 2009, those loans were consolidated into one loan. In July 2015, the Board of Trustees approved an amendment to the previous payment schedule. A payment of \$500,000 was made during the 2017-18 fiscal year with future years' payments ranging from \$500,000 to \$1,200,000. The loan matures in fiscal year 2025 and bears interest at a variable rate equal to the preceding fiscal year's average SPIA rate of return. As of June 30, 2018, the amount outstanding, including interest, totaled \$6,210,502.

12. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS).

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class employed by the State and faculty and specified employees in the State university system. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy

(HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the University are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services Web site (www.dms.myflorida.com).

The University's FRS and HIS pension expense totaled \$41,271,242 for the fiscal year ended June 30, 2018.

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions.
- *Special Risk Class* – Members who are employed as law enforcement officers and meet the criteria to qualify for this class.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of creditable service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of creditable service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

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

include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age, and/or years of service, average final compensation, and credit service. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following table shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
Regular Class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
Senior Management Service Class	2.00
Special Risk Class	3.00

As provided in Section 121.101, Florida Statutes, if the member was initially enrolled in the Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member was initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2017-18 fiscal year were:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.92
FRS, Senior Management Service	3.00	22.71
FRS, Special Risk	3.00	23.27
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	13.26
FRS, Reemployed Retiree	(2)	(2)

(1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.

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

The University's contributions to the Plan totaled \$18,255,686 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the University reported a liability of \$176,504,316 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The University's proportionate share of the net pension liability was based on the University's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the University's proportionate share was 0.596715076 percent, which was an increase of 0.03684922 from its proportionate share measured as of June 30, 2016.

For the year ended June 30, 2018, the University recognized pension expense of \$35,487,896. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 16,198,849	\$ 977,743
Change of assumptions	59,317,911	-
Net difference between projected and actual earnings on FRS Plan investments	-	4,374,218
Changes in proportion and differences between University contributions and proportionate share of contributions	19,109,928	-
University FRS contributions subsequent to the measurement date	18,255,686	-
Total	\$ 112,882,374	\$ 5,351,961

The deferred outflows of resources totaling \$18,255,686, resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 15,248,290
2020	30,432,102
2021	20,739,594
2022	5,247,691
2023	12,845,328
Thereafter	4,761,722
Total	\$ 89,274,727

Actuarial Assumptions. The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.10 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	3.0%	3.0%	1.8%
Fixed Income	18%	4.5%	4.4%	4.2%
Global Equity	53%	7.8%	6.6%	17.0%
Real Estate (Property)	10%	6.6%	5.9%	12.8%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	9.7%
Total	100%			
Assumed inflation - Mean			2.6%	1.9%

(1) As outlined in the Plan's investment policy.

Discount Rate. The discount rate used to measure the total pension liability was 7.10 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension

liability is equal to the long-term expected rate of return. The discount rate used in the 2017 valuation was updated from 7.60 percent to 7.10 percent.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.10 percent) or 1 percentage point higher (8.10 percent) than the current rate:

	<u>1% Decrease (6.10%)</u>	<u>Current Discount Rate (7.10%)</u>	<u>1% Increase (8.10%)</u>
University's proportionate share of the net pension liability	\$319,462,151	\$176,504,316	\$57,816,559

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended June 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2018, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The University contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The University's contributions to the HIS Plan totaled \$2,887,590 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the University reported a liability of \$56,638,544 for its proportionate share of the net pension liability. The current portion of the net pension liability is the University's proportionate share of benefit payments expected to be paid within 1 year, net of the

University's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, and update procedures were used to determine liabilities as of July 1, 2017. The University's proportionate share of the net pension liability was based on the University's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the University's proportionate share was 0.529705387 percent, which was an increase of .030014652 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the University recognized pension expense of \$5,783,346. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 117,930
Change of assumptions	7,961,432	4,897,595
Net difference between projected and actual earnings on HIS Plan investments	31,410	-
Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions	7,222,794	-
University HIS contributions subsequent to the measurement date	2,887,590	-
Total	\$ 18,103,226	\$ 5,015,525

The deferred outflows of resources totaling \$2,887,590, resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 2,403,494
2020	2,397,550
2021	2,394,697
2022	2,015,619
2023	1,171,322
Thereafter	(182,571)
Total	\$ 10,200,111

Actuarial Assumptions. The total pension liability at July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal bond rate	3.58 percent

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

While an experience study had not been completed for the HIS Plan, the actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study for the FRS Plan.

Discount Rate. The discount rate used to measure the total pension liability was 3.58 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used in the 2017 valuation was updated from 2.85 percent to 3.58 percent.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 3.58 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

	<u>1% Decrease (2.58%)</u>	<u>Current Discount Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
University's proportionate share of the net pension liability	\$64,632,079	\$56,638,544	\$49,980,371

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Comprehensive Annual Financial Report.

13. Retirement Plans – Defined Contribution Pension Plans

FRS Investment Plan. The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State's Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements,

are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2017-18 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30
FRS, Senior Management Service	7.67
FRS, Special Risk Regular	14.00

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2018, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the University.

After termination and applying to receive benefits, the member may roll over vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The University's Investment Plan pension expense totaled \$4,145,785 for the fiscal year ended June 30, 2018.

State University System Optional Retirement Program. Section 121.35, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible university instructors and administrators. The Program is designed to aid State universities in recruiting employees by offering more portability to employees not expected to remain in the FRS for 8 or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement

and death benefits through contracts provided by certain insurance carriers. The employing university contributes 5.14 percent of the participant's salary to the participant's account, 3.3 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover administrative costs, for a total of 8.45 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The University's contributions to the Program totaled \$20,369,919, and employee contributions totaled \$11,861,163 for the 2017-18 fiscal year.

14. Construction Commitments

The University's major construction commitments at June 30, 2018, were as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
UCF Downtown Academic Building	\$ 57,606,901	\$ 14,083,718	\$ 43,523,183
John C. Hitt Library Renovations	39,135,178	21,633,751	17,501,427
Trevor Colbourn Hall	35,093,018	30,008,522	5,084,496
CREOL Expansion Phase II	6,379,029	1,166,986	5,212,043
Student Union Expansion	5,356,088	3,232,891	2,123,197
Roth Athletic Center	2,507,815	377,140	2,130,675
Utilities Relocation Project	1,726,836	706,816	1,020,020
UCF Downtown Central Energy Plant	1,273,343	236,072	1,037,271
Subtotal	<u>149,078,208</u>	<u>71,445,896</u>	<u>77,632,312</u>
Other Projects (1)	<u>24,794,363</u>	<u>18,614,547</u>	<u>6,179,816</u>
Total	<u><u>\$ 173,872,571</u></u>	<u><u>\$ 90,060,443</u></u>	<u><u>\$ 83,812,128</u></u>

(1) Individual projects with a current balance committed of less than \$1 million at June 30, 2018.

15. Operating Lease Commitments

The University leased buildings under operating leases, which expire in fiscal year 2039-40. These leased assets and the related commitments are not reported on the University's statement of net position. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for these noncancelable operating leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 11,456,189
2020	12,422,270
2021	7,053,820
2022	6,773,556
2023	6,017,826
2024-2028	11,107,703
2029-2033	4,560,493
2034-2038	4,046,079
2039-2040	876,673
Total Minimum Payments Required	\$ 64,314,609

The University of Central Florida Foundation, Inc. (Foundation) receives rents and reimbursement for certain operating expenses from the University for various buildings owned by the Foundation and occupied by the University. The Foundation and University are also parties to a long-term 99-year ground lease for use of the land at Lake Nona for the Health Sciences Campus. Rents and reimbursements paid by the University for the year ended June 30, 2018, were \$9,445,452.

The University has also entered into rental agreements with the UCF Convocation Corporation for use of parking garages and various retail spaces surrounding the arena. Rents paid to the UCF Convocation Corporation for the year ended June 30, 2018, totaled \$2,393,192.

The University has entered into a 40-year lease for the use of a research and development center, with base rent of \$1 per year, and is responsible for all operating and maintenance charges for the center. The University has entered into a 5-year management services agreement with another entity to manage and operate the center. The entity will be responsible for payment of all operating and maintenance costs with some allowable costs reimbursed by the University.

16. State Self-Insurance Programs

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2017-18 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$92.5 million for named windstorm and flood through February 14, 2018, and decreased to \$78 million starting February 15, 2018. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$225 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and

\$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past 3 fiscal years.

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

17. University Self-Insured Program

The University of Central Florida, College of Medicine Self-Insurance Program (Program) was established pursuant to Section 1004.24, Florida Statutes, on September 25, 2008. The Program’s purpose is to provide comprehensive general liability and professional liability (malpractice) coverage for the University of Central Florida Board of Trustees and students for claims and actions arising from the clinical activities of the College of Medicine, College of Nursing, UCF Health Services, College of Health and Public Affairs, and the Central Florida Clinical Practice Organization, Inc., faculty, staff and resident physicians. The Program provides legislative claims bill protection. The Program is distinct from and entirely independent of the self-insurance programs administered by the State described in Note 16.

The University is protected for losses that are subject to Section 768.28, Florida Statutes, to the extent of the waiver of sovereign immunity as described in Section 768.28(5), Florida Statutes. The Program also provides \$1,000,000 per legislative claims bills inclusive of payments made pursuant to Section 768.28, Florida Statutes; \$250,000 per occurrence of protection for the participants that are not subject to the provisions of Section 768.28, Florida Statutes; \$250,000 per claim protection for participants who engage in approved community service and act as Good Samaritans; and student protections of \$200,000 for claim arising from an occurrence for any one person, \$300,000 for all claims arising from an occurrence and professional liability required by a hospital or other healthcare facility for educational purposes not to exceed a per occurrence limit of \$1,000,000.

The Self-Insurance Program’s estimated liability for unpaid claims at fiscal year-end is the result of management and actuarial analysis and includes an amount for claims that have been incurred but not reported. Changes in the balances of claims liability for the Self-Insurance Program during the 2016-17 and 2017-18 fiscal years are presented in the following table:

<u>Fiscal Year</u>	<u>Claims Liability Beginning of Year</u>	<u>Current Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Claim Liabilities End of Year</u>
June 30, 2017	\$ 141,222	\$ 92,630	\$ (274)	\$ 233,578
June 30, 2018	233,578	368,940	(1,023)	601,495

18. Litigation

The University is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the University's legal counsel and management, should not materially affect the University's financial position.

19. Functional Distribution of Operating Expenses

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 368,234,137
Research	143,653,460
Public Services	13,361,770
Academic Support	80,961,892
Student Services	55,325,718
Institutional Support	96,144,613
Operation and Maintenance of Plant	60,749,798
Scholarships, Fellowships, and Waivers	119,990,341
Depreciation	66,259,952
Auxiliary Enterprises	94,845,046
Loan Operations	476,387
Total Operating Expenses	<u><u>\$ 1,100,003,114</u></u>

20. Segment Information

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

Condensed Statement of Net Position

	Housing Capital Improvement Debt	Parking Capital Improvement Debt	Health Services Capital Improvement Debt
Assets			
Current Assets	\$ 13,907,999	\$ 11,257,929	\$ 10,194,101
Capital Assets, Net	90,501,932	59,250,294	10,321,067
Other Noncurrent Assets	11,712,667	17,158,837	6,522,000
Total Assets	116,122,598	87,667,060	27,037,168
Liabilities			
Current Liabilities	9,395,919	3,812,868	1,240,738
Noncurrent Liabilities	84,185,888	24,555,374	2,685,000
Total Liabilities	93,581,807	28,368,242	3,925,738
Net Position			
Net Investment in Capital Assets	1,282,036	31,636,904	7,171,067
Restricted - Expendable	11,590,403	17,107,972	6,448,077
Unrestricted	9,668,352	10,553,942	9,492,286
Total Net Position	\$ 22,540,791	\$ 59,298,818	\$ 23,111,430

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

	Housing Capital Improvement Debt	Parking Capital Improvement Debt	Health Services Capital Improvement Debt
Operating Revenues	\$ 29,971,788	\$ 22,116,646	\$ 22,215,310
Depreciation Expense	(4,277,614)	(2,871,423)	(580,955)
Other Operating Expenses	(16,417,131)	(11,931,376)	(17,473,206)
Operating Income	9,277,043	7,313,847	4,161,149
Nonoperating Revenues (Expenses):			
Nonoperating Revenue	526,316	669,684	231,119
Interest Expense	(3,957,120)	(1,214,085)	(197,916)
Other Nonoperating Expense	(176,917)	(49,473)	-
Net Nonoperating Revenue (Expenses)	(3,607,721)	(593,874)	33,203
Other Revenues, Expenses, Gains and Losses	(6,516,032)	(2,926,786)	(3,065,664)
Increase in Net Position	5,669,322	6,719,973	4,194,352
Net Position, Beginning of Year	23,387,501	55,505,631	21,982,742
Net Position, End of Year	\$ 22,540,791	\$ 59,298,818	\$ 23,111,430

Condensed Statement of Cash Flows

	Housing Capital Improvement Debt	Parking Capital Improvement Debt	Health Services Capital Improvement Debt
Net Cash Provided (Used) by:			
Operating Activities	\$ 13,296,893	\$ 9,567,175	\$ 3,820,687
Noncapital Financing Activities	(2,943,272)	(1,643,924)	(2,415,397)
Capital and Related Financing Activities	(13,131,665)	(6,241,387)	(1,085,516)
Investing Activities	3,322,094	(783,988)	111,933
Net Increase in Cash and Cash Equivalents	544,050	897,876	431,707
Cash and Cash Equivalents, Beginning of Year	1,374,835	1,285,429	783,081
Cash and Cash Equivalents, End of Year	\$ 1,918,885	\$ 2,183,305	\$ 1,214,788

21. Blended Component Units

The University has two blended component units as discussed in Note 1. The following financial information is presented net of eliminations for the University's blended component units:

Condensed Statement of Net Position

	Blended Component Units			University	Eliminations	Total Primary Government
	UCF Finance Corporation	University of Central Florida College of Medicine Self-Insurance Program	Total Blended Component Units			
Assets:						
Other Current Assets	\$ 3,259,264	\$ 5,681,660	\$ 8,940,924	\$ 619,653,227	\$ -	\$ 628,594,151
Capital Assets, Net	-	-	-	1,147,333,737	-	1,147,333,737
Due From University / Blended CU	48,064,711	-	48,064,711	-	(48,064,711)	-
Other Noncurrent Assets	-	-	-	106,460,582	-	106,460,582
Total Assets	51,323,975	5,681,660	57,005,635	1,873,447,546	(48,064,711)	1,882,388,470
Deferred Outflows of Resources	12,936,932	-	12,936,932	138,529,600	-	151,466,532
Liabilities:						
Other Current Liabilities	3,258,308	601,495	3,859,803	119,299,240	-	123,159,043
Due to University / Blended CU	-	-	-	48,064,711	(48,064,711)	-
Noncurrent Liabilities	60,861,000	-	60,861,000	699,201,410	-	760,062,410
Total Liabilities	64,119,308	601,495	64,720,803	866,565,361	(48,064,711)	883,221,453
Deferred Inflows of Resources	-	-	-	52,847,486	-	52,847,486
Net Position:						
Net Investment in Capital Assets	-	-	-	982,635,149	-	982,635,149
Restricted - Expendable	141,599	5,080,165	5,221,764	141,269,108	-	146,490,872
Unrestricted	-	-	-	(31,339,958)	-	(31,339,958)
Total Net Position	\$ 141,599	\$ 5,080,165	\$ 5,221,764	\$1,092,564,299	\$ -	\$1,097,786,063

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

	UCF Finance Corporation	University of Central Florida College of Medicine Self-Insurance Program	Total Blended Component Units	University	Eliminations	Total Primary Government
Operating Revenues	\$ -	\$ 1,432,659	\$ 1,432,659	\$ 550,334,264	\$ (1,432,659)	\$ 550,334,264
Depreciation Expense	-	-	-	(66,259,952)	-	(66,259,952)
Other Operating Expenses	(742,920)	(826,996)	(1,569,916)	(1,032,428,638)	255,392	(1,033,743,162)
Operating Income (Loss)	(742,920)	605,663	(137,257)	(548,354,326)	(1,177,267)	(549,668,850)
Nonoperating Revenues (Expenses):						
Nonoperating Revenue	3,672,465	109,847	3,782,312	609,329,653	(3,568,345)	609,543,620
Interest Expense	(2,129,545)	-	(2,129,545)	(5,404,485)	-	(7,534,030)
Other Nonoperating Expense	(800,000)	-	(800,000)	(36,990,599)	4,745,612	(33,044,987)
Net Nonoperating Revenues	742,920	109,847	852,767	566,934,569	1,177,267	568,964,603
Other Revenues	-	-	-	18,988,261	-	18,988,261
Increase in Net Position	-	715,510	715,510	37,568,504	-	38,284,014
Net Position, Beginning of Year	141,599	4,364,655	4,506,254	1,275,448,795	-	1,279,955,049
Adjustment to Beginning Net Position	-	-	-	(220,453,000)	-	(220,453,000)
Net Position, Beginning of Year, as Restated	141,599	4,364,655	4,506,254	1,054,995,795	-	1,059,502,049
Net Position, End of Year	\$ 141,599	\$ 5,080,165	\$ 5,221,764	\$ 1,092,564,299	\$ -	\$ 1,097,786,063

Condensed Statement of Cash Flows

	UCF Finance Corporation	University of Central Florida College of Medicine Self-Insurance Program	Total Blended Component Units	University	Eliminations	Total Primary Government
Net Cash Provided (Used) by:						
Operating Activities	\$ (528,222)	\$ 1,053,557	\$ 525,335	\$ (440,338,410)	\$ (1,178,896)	\$ (440,991,971)
Noncapital Financing Activities	-	-	-	550,967,406	3,440,073	554,407,479
Capital and Related Financing Activities	(394,577)	-	(394,577)	(108,224,520)	(2,261,177)	(110,880,274)
Investing Activities	44,237	(827,544)	(783,307)	5,009,534	-	4,226,227
Net Increase (Decrease) in Cash and Cash Equivalents	(878,562)	226,013	(652,549)	7,414,010	-	6,761,461
Cash and Cash Equivalents, Beginning of Year	4,137,826	1,567,691	5,705,517	13,317,018	-	19,022,535
Cash and Cash Equivalents, End of Year	\$ 3,259,264	\$ 1,793,704	\$ 5,052,968	\$ 20,731,028	\$ -	\$ 25,783,996

22. Discretely Presented Component Units

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

Condensed Statement of Net Position

	Direct-Support Organizations					Other		Total
	University of Central Florida Foundation, Inc.	University of Central Florida Research Foundation, Inc.	UCF Athletics Association, Inc.	UCF Convocation Corporation	UCF Stadium Corporation	Total Direct-Support Organizations	Central Florida Clinical Practice Organization, Inc.	
Assets:								
Current Assets	\$ 28,453,930	\$ 15,006,687	\$ 4,224,510	\$ 18,923,437	\$ 3,063,841	\$ 69,672,405	\$ 7,382,336	\$ 77,054,741
Capital Assets, Net	75,481,744	-	22,650,504	78,580,471	-	176,712,719	135,272	176,847,991
Other Noncurrent Assets	234,177,642	399,220	-	2,989,201	-	237,566,063	319,593	237,885,656
Total Assets	338,113,316	15,405,907	26,875,014	100,493,109	3,063,841	483,951,187	7,837,201	491,788,388
Deferred Outflows of Resources	-	-	-	4,456,977	676,182	5,133,159	-	5,133,159
Liabilities:								
Current Liabilities	2,916,641	9,107,491	7,363,025	12,445,462	4,108,921	35,941,540	380,718	36,322,258
Noncurrent Liabilities	18,019,108	-	11,867,055	174,706,067	44,157,005	248,749,235	-	248,749,235
Total Liabilities	20,935,749	9,107,491	19,230,080	187,151,529	48,265,926	284,690,775	380,718	285,071,493
Net Position:								
Net Investment in Capital Assets	56,026,744	-	16,995,505	(99,118,619)	(45,266,823)	(71,363,193)	135,272	(71,227,921)
Restricted Nonexpendable	136,083,134	-	-	-	-	136,083,134	-	136,083,134
Restricted Expendable	104,621,697	914,274	693,762	13,459,836	710	119,690,279	-	119,690,279
Unrestricted	20,445,992	5,384,142	(10,044,333)	3,457,340	740,210	19,983,351	7,321,211	27,304,562
Total Net Position	\$ 317,177,567	\$ 6,298,416	\$ 7,644,934	\$ (82,201,443)	\$ (44,525,903)	\$ 204,393,571	\$ 7,456,483	\$ 211,850,054

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

	Direct-Support Organizations					Other		Total
	University of Central Florida Foundation, Inc.	University of Central Florida Research Foundation, Inc.	UCF Athletics Association, Inc.	UCF Convocation Corporation	UCF Stadium Corporation	Total Direct-Support Organizations	Central Florida Clinical Practice Organization, Inc.	
Operating Revenues	\$ 56,987,606	\$ 11,770,482	\$ 59,157,030	\$ 32,641,933	\$ 3,644,882	\$ 164,201,933	\$ 6,091,038	\$ 170,292,971
Depreciation Expense	(1,733,080)	-	(924,514)	(2,980,672)	-	(5,638,266)	(36,549)	(5,674,815)
Operating Expenses	(49,586,383)	(11,161,075)	(54,992,976)	(16,636,510)	(438,710)	(132,815,654)	(2,158,520)	(134,974,174)
Operating Income	5,668,143	609,407	3,239,540	13,024,751	3,206,172	25,748,013	3,895,969	29,643,982
Net Nonoperating Revenues (Expenses):								
Nonoperating Revenues	12,575,647	370,625	1,298,964	137,635	58,170	14,441,041	-	14,441,041
Interest Expense	-	-	(248,788)	(7,306,551)	(1,813,440)	(9,368,779)	-	(9,368,779)
Other Nonoperating Expenses	(33,995)	-	-	(935,703)	(23,676)	(993,374)	(1,904,973)	(2,898,347)
Net Nonoperating Revenues (Expenses)	12,541,652	370,625	1,050,176	(8,104,619)	(1,778,946)	4,078,888	(1,904,973)	2,173,915
Other Revenues	5,693,092	-	-	-	-	5,693,092	-	5,693,092
Increase in Net Position	23,902,887	980,032	4,289,716	4,920,132	1,427,226	35,519,993	1,990,996	37,510,989
Net Position, Beginning of Year	293,274,680	5,318,384	3,355,218	(91,426,081)	(46,601,554)	163,920,647	5,465,487	169,386,134
Adjustment to Beginning Net Position	-	-	-	4,304,506	648,425	4,952,931	-	4,952,931
Net Position, Beginning of Year, as Restated	293,274,680	5,318,384	3,355,218	(87,121,575)	(45,953,129)	168,873,578	5,465,487	174,339,065
Net Position, End of Year	\$ 317,177,567	\$ 6,298,416	\$ 7,644,934	\$ (82,201,443)	\$ (44,525,903)	\$ 204,393,571	\$ 7,456,483	\$ 211,850,054

The UCF Convocation Corporation and the UCF Stadium Corporation have a deficit net position of \$82,201,443 and \$44,525,903, respectively, as of June 30, 2018. These deficits are attributed to the transfer of buildings and building improvements to the University as a result of the August 2015 and December 2015 debt refundings which terminated the ground leases between the UCF Convocation Corporation and the University, and the UCF Stadium Corporation and the University. The Corporations' debts related to the refundings were previously included as a component of the Net Investment in Capital Assets net position but are now included as a component of unrestricted net position on their stand-alone financial statements. The University has reclassified the amounts to Net Investment in Capital Assets in the Statement of Net Position. As the UCF Convocation Corporation and the UCF Stadium Corporation continue to reduce their outstanding long-term debt obligations, the deficit net position will decrease.

23. Subsequent Events

In July 2018, the UCF Convocation Corporation issued Refunding Revenue Bonds, Series 2018 of \$104,636,000 to a bank. The Series 2018 bonds were issued at par. This issuance includes term bonds with maturity dates extending through October 2035 and a fixed interest rate of 3.52 percent. Proceeds of \$104,636,000 from the Refunding Revenue Bonds plus an additional \$1,087,838 from the UCF Convocation Corporation were used to purchase \$105,482,838 of United States Treasury State and Local Government Series Securities. These securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the outstanding 2014A and 2014B certificates, which defeased the certificates. The UCF Convocation Corporation extinguished the debt on July 2, 2018.

The defeasance of the 2014A and 2014B certificates terminated the Housing ground lease agreement between the University and the UCF Convocation Corporation, resulting in the UCF Convocation Corporation transferring \$78,269,300 in net carrying value of all buildings and improvements to the University. Pursuant to the Operating Agreement between the University and the UCF Convocation Corporation, the UCF Convocation Corporation will continue to operate and maintain the facilities, and the University will relinquish its right to the future revenues earned by the facilities to the UCF Convocation Corporation. The revenues generated by and through such operation will secure repayment of the Series 2018 refunding revenue bonds.

On August 27, 2018, the UCF Foundation, Inc. closed on a 175,000 square foot building located in Lake Nona Medical City to be used by the University as a cancer research and treatment facility. The purchase price of the Sanford Burnham building and land is \$50,000,000, funded by a 30-year, interest free, mortgage.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the University's Proportionate Share of the Total Other Postemployment Benefits Liability

	2017
University's proportion of the total other postemployment benefits liability	2.78%
University's proportionate share of the total other postemployment benefits liability	\$ 300,512,000
University's covered-employee payroll	\$ 396,397,337
University's proportionate share of the total other postemployment benefits liability as a percentage of its covered-employee payroll	75.81%

Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan

	2017 (1)	2016 (1)	2015 (1)	2014 (1)	2013 (1)
University's proportion of the FRS net pension liability	0.596715076%	0.559865856%	0.538161499%	0.48430390%	0.360374086%
University's proportionate share of the FRS net pension liability	\$ 176,504,316	\$ 141,366,568	\$ 69,510,775	\$ 29,549,660	\$ 62,036,419
University's covered payroll (2)	\$ 396,397,337	\$ 364,535,289	\$ 333,695,268	\$ 305,107,256	\$ 289,894,138
University's proportionate share of the FRS net pension liability as a percentage of its covered payroll	44.53%	38.78%	20.83%	9.69%	21.40%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	83.89%	84.88%	92.00%	96.09%	88.54%

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, State university system optional retirement program members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

Schedule of University Contributions – Florida Retirement System Pension Plan

	2018 (1)	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 18,255,686	\$ 15,533,963	\$ 13,653,222	\$ 13,120,834	\$ 10,608,311
FRS contributions in relation to the contractually required contribution	<u>(18,255,686)</u>	<u>(15,533,963)</u>	<u>(13,653,222)</u>	<u>(13,120,834)</u>	<u>(10,608,311)</u>
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
University's covered payroll (2)	\$ 418,056,891	\$ 396,397,337	\$ 364,535,289	\$ 333,695,268	\$ 305,107,256
FRS contributions as a percentage of covered payroll	4.37%	3.92%	3.75%	3.93%	3.48%

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, State university system optional retirement program members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

**Schedule of the University's Proportionate Share
of the Net Pension Liability –
Health Insurance Subsidy Pension Plan**

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
University's proportion of the HIS net pension liability	0.529705387%	0.499690735%	0.469662225%	0.430757459%	0.415357381%
University's proportionate share of the HIS net pension liability	\$ 56,638,544	\$ 58,236,885	\$ 47,898,159	\$ 40,276,874	\$ 36,162,321
University's covered payroll (2)	\$ 166,665,368	\$ 153,090,572	\$ 140,702,712	\$ 127,489,508	\$ 122,964,996
University's proportionate share of the HIS net pension liability as a percentage of its covered payroll	33.98%	38.04%	34.04%	31.59%	29.41%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	1.64%	0.97%	0.50%	0.99%	1.78%

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**Schedule of University Contributions –
Health Insurance Subsidy Pension Plan**

	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 2,887,590	\$ 2,803,354	\$ 2,561,234	\$ 1,795,341	\$ 1,475,630
HIS contributions in relation to the contractually required HIS contribution	<u>(2,887,590)</u>	<u>(2,803,354)</u>	<u>(2,561,234)</u>	<u>(1,795,341)</u>	<u>(1,475,630)</u>
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll (2)	\$ 167,400,707	\$ 166,665,368	\$ 153,090,572	\$ 140,702,712	\$ 127,489,508
HIS contributions as a percentage of covered payroll	1.72%	1.68%	1.67%	1.28%	1.16%

(1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

1. Schedule of the University's Proportionate Share of the Total Other Postemployment Benefits Liability

No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. The University's June 30, 2018, proportionate share of the total OPEB liability decreased from the prior fiscal year as a result of changes to benefits and assumptions as discussed below:

Changes in Assumptions. In 2018, amounts reported as changes in assumptions resulted from adjustments to active mortality rates, updates to HMO and PPO healthcare claims costs, changes in retiree contributions, change in trend rates, and a change in the discount rate of return. (Refer to Note 11. to the financial statements for further detail.)

2. Schedule of Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan

Changes of Assumptions. The long-term expected rate of return was decreased from 7.60 percent to 7.10 percent, and the active member mortality assumption was updated.

3. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan

Changes of Assumptions. The municipal rate used to determine total pension liability increased from 2.85 percent to 3.58 percent.



Sherrill F. Norman, CPA
Auditor General

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

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

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, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 20, 2019, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the blended and aggregate discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 University'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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying **SCHEDULE OF FINDING AND RESPONSE** as Finding No. 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying **SCHEDULE OF FINDING AND RESPONSE** as Finding No. 2018-001.

Management's Response to Finding

Management's response to the finding identified in our audit is described in the accompanying **SCHEDULE OF FINDING AND RESPONSE**. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 20, 2019

SCHEDULE OF FINDING AND RESPONSE

NONCOMPLIANCE AND MATERIAL WEAKNESS

FINANCIAL REPORTING

Finding Number	2018-001
Opinion Unit	University of Central Florida
Financial Statements Account Titles	Not Applicable
Adjustment Amounts	Not Applicable
Prior Year Finding	Not Applicable
Finding	<p>In our operational audit report No. 2019-095, dated January 2019, we disclosed that the University used \$29.1 million in Education and General appropriation carryforward funds to construct the Trevor Colbourn Hall after the Legislature directed that non-appropriated sources be used for the construction. In addition, the University misreported the funding source for the construction of the Trevor Colbourn Hall in the capital outlay budget for each of the 2015-16 through 2018-19 fiscal years, obscuring government transparency of the budget process and misinforming the public of how the construction was being funded. As such, University controls were ineffective to prevent, or timely detect and correct, the unallowable use of the legislatively appropriated carryforward funds for construction activities.</p> <p>As a result of our audit procedures, in September 2018 the University posted journal entries to replenish the E&G funds totaling \$38 million that had been used for the Trevor Colbourn Hall Project and \$46.5 million that had been accumulated for 11 other construction projects. While these journal entries were necessary to properly record this information in the University accounting records and report it on the financial statements, our procedures do not substitute for University management's responsibility for proper financial reporting.</p>
Management's Response	University management concurred with the finding. Management's response, in its entirety, is included in our operational audit report No. 2019-095.