

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

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

**UCF FINANCE CORPORATION
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JUNE 30, 2018 AND 2017**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
UCF Finance Corporation
Orlando, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the UCF Finance Corporation (the "Corporation"), a direct support organization and component unit of the University of Central Florida, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of June 30, 2018, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-7 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.

Prior Year Financial Statements

The financial statements of the Corporation as of June 30, 2017 were audited by other auditors whose report dated October 5, 2017 expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



Crowe LLP

Tampa, Florida
October 30, 2018

**UCF FINANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the UCF Finance Corporation (the Corporation) for the fiscal years ended June 30, 2018 and 2017, 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 management. The MD&A contains financial activity of the Corporation for the fiscal years ended June 30, 2018, 2017, and 2016.

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

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

The Corporation issued a Note during 2018 to assist with the financing of a new University downtown campus education facility (UCF Downtown). UCF Downtown, will bring 7,700 students to live, learn and work in downtown Orlando, creating a game-changing campus in the heart of our great city. Scheduled to open in fall 2019, this transformational project, which kick-starts Orlando's \$1 billion public-private Creative Village, will increase access for students, provide pathways into high-demand career fields, foster collaboration with our neighbors in meaningful ways and improve countless lives through the power of education.

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

THE STATEMENT OF NET POSITION

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

**UCF FINANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(CONTINUED)**

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current Assets	\$ 3,259,264	\$ 4,370,336	\$ 4,230,947
Noncurrent Assets	48,064,711	47,305,410	48,852,004
Total Assets	<u>51,323,975</u>	<u>51,675,746</u>	<u>53,082,951</u>
Deferred Outflows	<u>12,936,932</u>	<u>12,550,585</u>	<u>18,102,762</u>
Liabilities			
Current Liabilities	3,258,308	1,709,147	1,626,352
Noncurrent Liabilities	60,861,000	62,375,585	69,417,762
Total Liabilities	<u>64,119,308</u>	<u>64,084,732</u>	<u>71,044,114</u>
Net position			
Restricted	2,498,956	3,936,491	3,908,309
Unrestricted	(2,357,357)	(3,794,892)	(3,766,710)
Total Net position	<u>\$ 141,599</u>	<u>\$ 141,599</u>	<u>\$ 141,599</u>

The Corporation's assets totaled \$51.3 million at June 30, 2018. This balance reflects a \$0.4 million, or 0.7 percent decrease from the prior fiscal year. Liabilities remained relatively consistent with the prior year. The Corporation's total net position remained unchanged from the prior year. Deferred outflows of \$13 million represented the deferred loss on refunding associated with the termination of the Finance Corporation SWAP liability on September 20, 2017, with the debt refinancing (as further described in Notes 4 and 5).

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statement of revenues, expenses, and changes in net position presents the Corporation's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. GASB Statement No. 35 categorizes revenues and expenses as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value. The majority of the Corporation's revenues and expenses are nonoperating revenues and expenses as defined by GASB.

UCF FINANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(CONTINUED)

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

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ -	\$ -	\$ -
Operating expenses	742,920	205,587	188,308
Operating loss	<u>(742,920)</u>	<u>(205,587)</u>	<u>(188,308)</u>
Net nonoperating revenues	<u>742,920</u>	<u>205,587</u>	<u>188,308</u>
Change in net position	-	-	-
Net position, beginning of year	<u>141,599</u>	<u>141,599</u>	<u>141,599</u>
Net position, end of year	<u>\$ 141,599</u>	<u>\$ 141,599</u>	<u>\$ 141,599</u>

The Corporation's operating expenses totaled \$0.7 million at June 30, 2018. This balance reflects a \$0.5 million, or 261 percent increase from the prior year, primarily resulting from increased letter of credit fees and cost of issuance fees for the debt refinancing and newly issued note (as further described in Notes 4 and 5). Nonoperating revenues increased due to additional distributions from the University to cover the additional expenses noted above.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the Corporation's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the Corporation's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the Corporation. Cash flows from capital and related financing activities include changes associated with long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments.

**UCF FINANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(CONTINUED)**

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash flows provided by (used in)			
Operating activities	\$ (528,222)	\$ (308,999)	\$ (195,888)
Net Noncapital and related financing activities	(394,577)	334,561	(434,862)
Investing activities	44,237	10,958	116,828
Net decrease in cash	(878,562)	36,520	(513,922)
Cash and cash equivalents			
Beginning of year	4,137,826	4,101,306	4,615,228
End of year	<u>\$ 3,259,264</u>	<u>\$ 4,137,826</u>	<u>\$ 4,101,306</u>

Cash flows used in operating activities totaled \$0.5 million at June 30, 2018. This balance reflects a \$0.2 million, or 70.1 percent increase from the prior year, primarily resulting from increased letter of credit fees and cost of issuance fees for the debt refinancing and newly issued note (as further described in Notes 4 and 5). Cash flows used in noncapital and related financing totaled \$0.4 million at June 30, 2018. This balance reflects a \$0.7 million, or 218 percent increase from the prior year, primarily due to a distribution of \$0.8 million to the University to fund repairs to the University's football stadium.

DEBT ADMINISTRATION

The Corporation had \$63.4 million in notes payable as of June 30, 2018. In September 2017, the Corporation refinanced the Series 2007 Bonds, which terminated the associated interest rate SWAP agreement at a cost of \$13,447,600. As a result of the refinancing, the Corporation's long term debt balance increased by \$12 million, or 23.5 percent. With the elimination of the Corporation's interest rate SWAP agreement, and the new lower interest rate on the Note, the Corporation was able to reduce its debt service requirements by \$5,804,859 over the next 20 years and obtain an economic gain of \$4,315,688. Additional information about the Corporation's derivative instrument activity and long-term obligations can be found in Notes 4 and 5 to the financial statements. The following table summarizes the Corporation's long-term debt balances for the fiscal years ended June 30:

**Long-Term Debt
(For the Fiscal Years Ended June 30)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Notes Payable	\$ 63,359,000	\$ -	\$ -
Bonds Payable	-	51,315,000	52,730,000
Total	<u>\$ 63,359,000</u>	<u>\$ 51,315,000</u>	<u>\$ 52,730,000</u>

**UCF FINANCE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(CONTINUED)**

ECONOMIC OUTLOOK

The Corporation has added great value to the University's mission and its specific vision to construct a state of the art facility for biomedical research. In September 2017, the Corporation refunded its Series 2007 debt issuance, terminating the outstanding SWAP liability, and reducing the Corporation's annual debt service requirement. The Corporation will continue to support the University by providing a line of credit for the University's Downtown construction project funded by pledges received by the Foundation.

REQUEST FOR INFORMATION

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

**UCF FINANCE CORPORATION
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017**

	2018	2017
<u>ASSETS</u>		
Current assets		
Other assets	\$ -	\$ 232,510
Restricted cash and cash equivalents	3,259,264	4,137,826
Total current assets	3,259,264	4,370,336
Noncurrent assets		
Due from the University of Central Florida	48,064,711	47,305,410
Total Assets	51,323,975	51,675,746
<u>DEFERRED OUTFLOW OF RESOURCES</u>		
Accumulated decrease in fair value of hedging derivatives	-	12,550,585
Deferred loss on refunding of debt	12,936,932	-
	12,936,932	12,550,585
<u>LIABILITIES</u>		
Current liabilities		
Current portion of long-term debt	2,498,000	1,490,000
Accounts payable and accrued expenses	-	17,812
Interest payable	760,308	201,335
Total current liabilities	3,258,308	1,709,147
Noncurrent liabilities		
Long-term debt, less current portion	60,861,000	49,825,000
Interest rate swap	-	12,550,585
Total noncurrent liabilities	60,861,000	62,375,585
Total Liabilities	64,119,308	64,084,732
<u>NET POSITION</u>		
Restricted for:		
Debt service	2,498,956	3,810,315
Letter of credit	-	126,176
Unrestricted	(2,357,357)	(3,794,892)
Total Net Position	\$ 141,599	\$ 141,599

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

**UCF FINANCE CORPORATION
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ -	\$ -
Operating expenses		
Professional services	742,920	205,587
Operating loss	<u>(742,920)</u>	<u>(205,587)</u>
Nonoperating revenues (expenses)		
Interest income	44,237	10,958
Interest expense	(2,129,545)	(2,304,436)
Distributions from the University of Central Florida	3,566,715	2,499,065
Distributions to the University of Central Florida	(800,000)	-
Distributions from the UCF Foundation	61,513	-
Total nonoperating revenues	<u>742,920</u>	<u>205,587</u>
Change in net position	<u>-</u>	<u>-</u>
Net position, beginning of year	<u>141,599</u>	<u>141,599</u>
Net position, end of year	<u>\$ 141,599</u>	<u>\$ 141,599</u>

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

**UCF FINANCE CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018 AND 2017**

	2018	2017
Cash flows from operating activities		
Payments to suppliers and others	\$ (528,222)	\$ (308,999)
Cash flows from noncapital and related financing activities		
Proceeds from issuance of debt	63,359,000	-
Payments on long-term debt	(51,315,000)	(1,415,000)
Interest paid	(1,059,904)	(2,296,098)
SWAP termination payment	(13,447,600)	
Distributions from the University of Central Florida	2,807,414	4,045,659
Distributions to the University of Central Florida	(800,000)	-
Distributions from the UCF Foundation	61,513	-
Net cash provided by (used in) noncapital and related financing activities	(394,577)	334,561
Cash flows from investing activities		
Interest income received	44,237	10,958
Net increase (decrease) in cash and cash equivalents	(878,562)	36,520
Cash and cash equivalents, beginning of year	4,137,826	4,101,306
Cash and cash equivalents, end of year	\$ 3,259,264	\$ 4,137,826
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	\$ (742,920)	\$ (205,587)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Changes in assets and liabilities:		
Other assets	232,510	(102,869)
Accounts payable and accrued expenses	(17,812)	(543)
Net cash used in operating activities	\$ (528,222)	\$ (308,999)
Supplemental disclosure of noncash capital activities		
Changes in the fair value of the Finance Corporation interest rate Swap liability were recognized on the statement of net position, but is not a cash transaction for the statement of cash flows.	\$ -	\$ 5,552,177

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

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

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

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

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

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

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

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. The statement of revenues, expenses and changes in net position is presented in a format which distinguishes operating revenues and expenses from non-operating items. Operating revenues normally, but not always, result from exchange transactions defined as revenues received in exchange for a good or service. Non-operating revenues are defined as revenues normally, but not always, resulting from non-exchange transactions, defined as value received with no good or service exchanged. The Corporation is not providing any goods or services in exchange for revenues, resulting in all revenues being classified as Non-operating on the statement of revenues, expenses and changes in net position. The statement of cash flows is presented using the direct method in compliance with GASB standards of accounting and financial reporting.

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UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

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

(e) **Due From the University of Central Florida**—The amounts recorded as Due from the University of Central Florida includes funds held by the University on behalf of the Corporation plus an amount equal to the total liabilities of the Corporation less the Corporation's current assets and deferred outflows.

(f) **Revenue Recognition**—Revenues are generated from basic rent distributions from the University in accordance with the operating lease agreement between the Corporation and the University. Basic rent is defined as being equal to principal, interest, and other expenses incurred by the Corporation. Other nonoperating revenues include distributions of pledges secured by the UCF Foundation for the Construction of a new UCF Downtown campus and interest income.

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

(h) **Deferred outflows of resources**—The unrestricted net position previously included the effect of recognizing a deferred outflow of resources for the change in the fair value on the interest rate swap agreement from year to year. Gains and losses realized upon settlement of these agreements were deferred until the underlying hedged instrument were settled. In fiscal year 2018, the interest rate swap was terminated as a result of the Corporation's debt refinancing resulting in a deferred loss on refunding. The deferred loss on refunding will be amortized as a component of interest expense over the life of the remaining debt.

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

- Restricted net position – This represents the Corporation's resources that have constraints placed upon their use either by external donors or creditors or through laws, regulations or constraints imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets.
- Unrestricted net position – This represents Corporation resources which do not meet the definition of "restricted" or "net investment in capital assets."

(continued)

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

There was no net investment in capital assets at June 30, 2018 and 2017. When both restricted and unrestricted net positions are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

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

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

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

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

(l) **Interest rate swap**—The Corporation makes limited use of derivative instruments for the purpose of managing interest rate risks. Interest rate swap agreements were used to convert the Corporation's variable rate long-term debt to a fixed rate. The Corporation's interest rate SWAP was terminated on September 20, 2017. See Note 4 for additional description of the Corporation's swap agreement.

(m) **Reclassification**—Certain amounts in the prior year financial statements may have been reclassified to conform to the current year presentation. These reclassifications had no effect on the change in net position or total net position.

(2) **Cash and Cash Equivalents:**

The Corporation's restricted cash shown on the statement of net position represents cash held by the Corporation's trustee in the Corporation's name. These funds consist of funds held for debt service payments and letter of credit annual commitment fees. For the years ended June 30, 2018 and 2017, \$3,259,264 and \$4,011,650, respectively, were invested in a government money market fund through a national bank in accordance with the University's investment policy for managing credit risks, which the Corporation follows.

The Corporation has cash invested by the University of \$1,977,224 and \$773,758 at June 30, 2018 and 2017, respectively. The amounts are included in Due From the University of Central Florida on the accompanying statement of net position. Section 1011.42(5), Florida Statutes, authorizes universities and their component units to invest funds with the State Treasury and State Board of Administration, and requires that these entities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities and their component units are subject to the requirements of

(continued)

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

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

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

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

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

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

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

(4) **Derivative Instrument Activity:**

In June 2007, the Corporation entered into an interest rate swap in connection with its issuance of Series 2007, \$60,000,000 of variable-rate Capital Improvement Revenue Bonds (the 2007 debt issue). The Corporation utilized such derivatives to manage its exposure to interest rate risk. The Corporation did not enter into financial instruments for trading or speculative purposes. The swap was intended to effectively change the Corporation's variable interest rate on the bonds to a synthetic fixed rate. The notional amount of the swap was expected to match the principal amount on the associated bonds through the scheduled termination date of the swap on July 1, 2037. The variable-rate coupons of the bonds were reset weekly by the remarketing agent. Under the terms of the swap agreement, the Corporation paid the swap counterparty a fixed payment of 4.376 percent and receives a variable payment based on the Securities Industry and

(continued)

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Financial Market Association (SIFMA) swap index. The resulting synthetic interest rate for the associated bonds was equal to the fixed amount paid plus the remarketed variable bond rate minus the variable SIFMA rate received. The notional amount of the derivative did not represent actual amounts exchanged by the parties and, thus, was not a measure of the exposure of the Corporation through its use of derivatives. The amounts exchanged were calculated by reference to the notional amounts and by other terms of the derivative, such as interest rates or other financial indices. Because of inherent uncertainties in estimating the fair value of the rate swap agreement, it was at least reasonably possible that the Corporation's estimate would change in the near term. The fair value of the rate swap agreement will continue to increase or decrease over the term of the agreement in response to the SIFMA rate, which is variable. On September 20, 2017, the Corporation terminated the SWAP as described in Note 5, LOC Fee Support, in the accompanying notes to the financial statements.

The \$12,550,585 liability reflected on the fiscal year 2017 financial statements of net position as interest rate swap reflects the theoretical settlement amount the Corporation would have to pay on June 30, 2017, to cancel the interest rate swap agreement, which approximates the transfer value to a market participant. On September 20th, 2017 the SWAP was terminated at a cost of \$13,447,600. As of June 30, 2017, the outstanding swap agreement met the criteria set forth under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as an effective hedging derivative instrument and hedge accounting was applied. The aggregate fair value is reflected on the statement of net position under noncurrent liabilities. The annual change in the fair value of the swap was reported as deferred outflow on the statement of net position. The fair value of the interest rate swap was estimated using an independent pricing service. This derivative instrument was valued using interest rates and yield curves that are observable at commonly quoted intervals as the inputs in the valuation models (Level 2 inputs).

Credit Risk: As of June 30, 2017, the Corporation was not exposed to credit risk on the swap because it had a negative fair value. However, if interest rates change and the fair value of the swap became positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. As of June 30, 2017, the swap counterparty was rated A3 and A- by Moody's and S&P, respectively. The Corporation and the swap counterparty may be required to post collateral, with a third party custodian under the terms of the swap agreement.

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

	<u>Terms</u>	<u>2017</u>
Interest Rate Swap:		
Fixed Rate Paid to Swap Counterparty	Fixed	4.376%
Variable Rate Received from Swap Counterparty	SIFMA	(0.860%)
Net Interest Rate Swap Rate		<u>3.516%</u>
Remarketed Variable Bond Rate	Fixed	<u>1.010%</u>
Synthetic Interest Rate Paid on Bonds		<u><u>4.526%</u></u>

(continued)

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Derivative instrument activity for the Swap was terminated on September 20, 2017 and no balances remained as of June 30, 2018.

Derivative instrument activity for the fiscal year ended June 30, 2017, was as follows:

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Fair Value</u>
Pay – fixed interest rate	Hedge of changes in fair value of the 2007 Series bonds	\$51,315,000	7/1/2007	7/1/2037	Receive SIFMA, pay 4.376%	\$ (12,550,585)

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

As described above in Note 4, the Corporation issued the Series 2007 Capital Improvement Revenue Bonds with an aggregate principal amount of \$60,000,000, to assist in financing the University's construction of the Burnett Biomedical Sciences Building. The bonds mature on July 1, 2037 and are secured by the University's indirect cost revenues received by the University from Federal, State, and private grants and further secured by an irrevocable direct pay letter of credit issued by Fifth Third Bank of Central Florida. In accordance with the letter of credit, the Corporation is required to pay the bank an annual commitment fee. The fees incurred for the fiscal years ended June 30, 2018 and 2017, were \$469,518 and \$129,641, respectively.

In September 2017, the Corporation issued a \$63,359,000 Refinancing Term Loan, Series 2017 to 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 SWAP liability and to fund \$202,200 of cost of issuance expenses. 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 reduces its debt service requirement by \$5,804,859 over the next 20 years and obtained an economic gain of \$4,315,688. Approximately \$202,200 related to the refinancing cost of issuance is included in the professional services expenses for fiscal year 2018.

(continued)

UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

The following is a schedule of future principal and interest payments for the term loan as of June 30, 2018:

Fiscal Year Ending June 30,	Loans Payable		Net Cash Flows
	Principal	Interest	
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
Totals	\$ 63,359,000	\$ 16,415,100	\$ 79,774,100

On March 8, 2018 the Finance 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% multiplied by the sum of the LIBOR plus 0.50% and is subject to adjustment to reflect changes in the LIBOR Rate. The rate on June 30, 2018 was 2.74%. The balance of the note was \$0 as of June 30, 2018. Payments will be made on an annual basis on March 8th of each year beginning March 8, 2019.

Changes in long-term debt for the year ended June 30, 2018, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Note payable	\$ -	\$ 63,359,000	\$ -	\$ 63,359,000	\$ 2,498,000
Bonds payable	51,315,000	-	(51,315,000)	-	-
UCF Downtown construction note	-	61,513	(61,513)	-	-
Total long-term debt	\$ 51,315,000	\$ 63,420,513	\$ (51,376,513)	\$ 63,359,000	\$ 2,498,000

(continued)

**UCF FINANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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

Changes in long-term debt for the year ended June 30, 2017, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$ 52,730,000	\$ -	\$ (1,415,000)	\$ 51,315,000	\$ 1,490,000
Total long-term debt	<u>\$ 52,730,000</u>	<u>\$ -</u>	<u>\$ (1,415,000)</u>	<u>\$ 51,315,000</u>	<u>\$ 1,490,000</u>

(6) **Operating Lease:**

In June 2007, the Corporation entered into an operating lease with the University in which the University makes basic rent payments to the Corporation equal to principal, interest, and associated expenses incurred by the Corporation for the financing of facilities constructed on the Health Sciences Campus located at Lake Nona. Total payments received from the University under this agreement were \$3,566,715 and \$2,499,065 for the years ended June 30, 2018 and 2017, respectively, and are reflected as distributions from the University of Central Florida in the accompanying statement of revenues, expenses, and changes in net position.

(7) **Related Party Transactions:**

The University distributed funds to the Corporation in accordance with the operating lease as discussed in Note 6. Distributions from the University were \$3,566,715 and \$2,499,065 for the years ended June 30, 2018 and 2017, respectively.

During 2017, the Corporation entered into an agreement with the UCF Foundation for the use of pledges to secure a note for the construction of a new UCF Downtown campus. The pledges will be distributed from the UCF Foundation to the Corporation to reimburse the Corporation for construction distributions to the University. The Corporation had cost of issuance expenses associated with the note in fiscal year 2018 of \$61,513, which were reimbursed by pledge distributions from the UCF Foundation.

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

Board of Directors
UCF Finance Corporation
Orlando, Florida

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the UCF Finance Corporation (the "Corporation"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated October 30, 2018.

Internal Control Over Financial Reporting

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

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

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

(Continued)

Compliance and Other Matters

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

Purpose of this Report

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



Crowe LLP

Tampa, Florida
October 30, 2018

**INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH
SECTION 218.415, FLORIDA STATUTES**

Board of Directors
UCF Finance Corporation
Orlando, Florida

We have examined the UCF Finance Corporation's (the "Corporation") compliance with Section 218.415, *Florida Statutes*, concerning the investment of public funds during the year ended June 30, 2018. Management of the Corporation is responsible for the Corporation's compliance with the specified requirements. Our responsibility is to express an opinion on the Corporation's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Corporation complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Corporation complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the Corporation's compliance with specified requirements.

In our opinion, the Corporation complied, in all material respects, with the requirements contained in Section 218.415, *Florida Statutes*, during the year ended June 30, 2018.

The purpose of this report is solely to comply with Chapter 10.550, *Rules of the Florida Auditor General*. Accordingly, this report is not suitable for any other purpose.


Crowe LLP

Tampa, Florida
October 30, 2018