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

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

UCF CONVOCATION CORPORATION
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JUNE 30, 2017 AND 2016

James Moore
Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
UCF Convocation Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the UCF Convocation Corporation (the Corporation), a direct support organization and component unit of the University of Central Florida, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2017, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

James Moore & Co., P.L.

Gainesville, Florida
October 5, 2017

This management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the UCF Convocation Corporation (the Corporation), as of and for the years ended June 30, 2017 and 2016, 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, 2017, 2016, and 2015.

The Corporation is presented as a discrete component unit of the University of Central Florida (the University) and was certified as a direct support organization in August 2005. The purpose of the Corporation is to finance, construct and operate residential halls, a convocation center, and surrounding retail spaces (Knights Plaza) on behalf of the University.

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, deferred inflows of resources and liabilities of the Corporation, and it presents the financial position of the Corporation at a specified time. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources equal net position, which is one indicator of the Corporation's current financial condition. The changes in net position that occur over time indicates improvement or deterioration in the Corporation's financial condition. Restricted net position consists of assets that have constraints placed upon their use either by external donors or creditors or through laws, regulations or constraints imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets. Unrestricted net position consists of net assets that do not meet the definition of either restricted or net investment in capital assets. The Corporation's liabilities exceeded assets creating a negative net position of $91.4 million at June 30, 2017, primarily due to the Corporation's debt refunding in fiscal year 2016.

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

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

	2017	2016	2015
Assets			
Current assets	$ 18,490,760	$ 20,804,334	$ 18,510,462
Noncurrent assets	83,910,876	87,155,327	176,266,322
Total Assets	102,401,636	107,959,661	194,776,784
Deferred outflows	599,880	632,751	690,274
Liabilities			
Current liabilities	12,030,383	12,319,972	11,126,206
Noncurrent liabilities	182,212,650	189,514,234	203,209,991
Total Liabilities	194,243,033	201,834,206	214,336,197
Deferred inflows	184,564	194,677	-
Net Position			
Net investment in capital assets	(26,614,466)	(27,588,316)	(44,185,610)
Restricted	10,229,603	14,572,317	23,724,932
Unrestricted	(75,041,218)	(80,420,472)	1,591,539
Total Net Position	$ (91,426,081)	$ (93,436,471)	$ (18,869,139)

In August 2015, the Corporation refunded its Series 2005A tax-exempt and 2005B taxable certificates of participation with 2015A and 2015B revenue bonds, respectively. The extinguishment of the defeased certificates terminated the arena ground lease between the Corporation and the University. All building and building improvements on the leased land transferred in ownership to the University. A detailed description of these debt issuances can be found in Note 5, Long term Obligations, in the accompanying notes to the financial statements.

The Corporation's assets totaled $102.4 million as of June 30, 2017. This balance reflects a decrease of $5.6 million, or 5.1 percent, compared to June 30, 2016, primarily due to depreciation on the Corporation's fixed assets and a decrease in restricted cash and cash equivalents.

Liabilities totaled $194.2 million as of June 30, 2017. This balance reflects a decrease of $7.6 million, or 3.8 percent, compared to June 30, 2016, primarily due to current year debt service payments.

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.

Operating revenue consists primarily of the rental revenue generated from on campus student housing and income generated by activities and events hosted inside the arena. Operating expenses include those necessary costs associated with the continued maintenance and operations of these facilities as well as depreciation expense related to the buildings and associated equipment. Non-operating activity consists primarily of interest expense and transfers to the University.

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

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

	2017	2016	2015
Operating revenues	$ 30,707,269	$ 32,597,315	$ 28,975,125
Operating expenses	17,782,956	22,877,529	20,773,655
Operating income	12,924,313	9,719,786	8,201,470
Net nonoperating expense	(10,913,923)	(84,287,118)	(9,645,054)
Increase (decrease) in net position	2,010,390	(74,567,332)	(1,443,584)
Net position, beginning of year	(93,436,471)	(18,869,139)	(17,425,555)
Net position, end of year	$ (91,426,081)	$ (93,436,471)	$ (18,869,139)

The Corporation's operating revenues for the year ended June 30, 2017 decreased by $1.9 million or 5.8 percent primarily due to a decrease in the number of arena events during the year. Operating expenses for the year ended June 30, 2017 decreased $5.1 million, or 22.3 percent due to lower event production expenses relating to the decreased number of events held in the arena and a decrease in amortization expenses which included the write-off of bond insurance premiums.

Non-operating expenses totaled $10.9 million at June 30, 2017. This balance reflects a $73.4 million decrease from the prior year primarily due to the 2016 fiscal year total including the transfer of the Corporation's arena building and building improvement assets to the University as a result of the Corporation's debt refunding, as discussed previously.

THE STATEMENT OF CASH FLOWS

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

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

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

	2017	2016	2015
Cash flows provided by (used in)			
Operating activities	$ 15,627,273	$ 16,229,633	$ 16,229,587
Non-capital financing activities	(2,636,499)	(2,300,776)	2,044,034
Capital and related financing activities	(18,228,860)	(22,759,092)	(16,926,039)
Investing activities	132,223	280,837	501,401
Net increase (decrease) in cash	(5,105,863)	(8,549,398)	1,848,983
Cash and cash equivalents			
Beginning of year	17,607,394	26,156,792	24,307,809
End of year	$ 12,501,531	$ 17,607,394	$ 26,156,792

Cash and cash equivalents decreased by $5.1 million from the prior year primarily due to transfers to the University and the UCF Athletics Association Inc. per the corporation's governing board decision.

DEBT ADMINISTRATION

As of June 30, 2017, the Corporation has two sets of outstanding capital debt issuances, the Series 2014A and 2014B certificates of participation, collectively referred to as the Housing project, and the Series 2015A and 2015B revenue bonds, collectively referred to as the Arena project. The outstanding principal balance on these debt issuances was $188.4 million at June 30, 2017.

Each year, in accordance with the support agreements with the University entered into at the time of each of these issuances, the Corporation calculates a debt service coverage ratio for both the Housing and Arena projects. The ratio is intended to represent the Corporation's ability to meet its current year debt obligations. The method for this calculation, which is further described within the agreements, is different for both the Housing project and the Arena project. Should the event occur where this ratio is not met, the University has pledged financial support to assist the Corporation's efforts to meet its debt obligations.

The Housing project calculation allows certain non-cash expenses to be added back to the Corporation's total for changes in net position. The calculation also allows for excess revenues from the Housing project, beyond those necessary for debt service, to be added to the calculation for coverage for the Arena project. Per the agreement, the ratio is required to be 120 percent of the current year's principal and interest payments.

The Arena project calculation, includes certain Arena facility revenues net of related expenses. These revenues include premium seating, sponsorship, naming rights, arena retail income, University operating payments, and excess revenues from the Housing project. Per the agreement, the ratio is required to be 120 percent of the current year's principal and interest payments.

The table below reflects the debt service coverage ratio for the Housing project for the fiscal year ending June 30, 2017:

	Housing Certificates Series 2014A and 2014B
Change in net position, net of non-operating activity per agreement	$ 6,273,263
Add back depreciation expense	2,928,693
Add back amortization expense	32,870
Add back interest expense	4,062,549
Add back management fees	179,251
Available for debt service	$ 13,476,626
Annual debt service	$ 8,144,986
Coverage Ratio	**165%**

The table below reflects the debt service coverage ratio for the Arena project for the fiscal year ending June 30, 2017:

		Arena Revenue Bonds Series 2015A and 2015B
Arena Revenues		
Net Premium Seating	$	145,785
Advertising and Sponsorship		125,000
Net Naming Rights		526,667
UCF Operating Payment		2,200,000
Transfer from UCFCC Housing Project		4,403,316
Net Retail Income		867,745
Available for debt service	$	8,268,513
Annual debt service	$	6,014,373
Coverage Ratio		**137%**

ECONOMIC OUTLOOK

The Corporation has added great value to the University by financing, constructing and operating residential halls, a convocation center and surrounding retail spaces to enhance the students' experience on campus. Knights Plaza continues to strengthen its name and reputation on-campus and add value to the University. Operations are anticipated to remain constant by retaining high occupancy rates at the towers and continuing to host successful events at the convocation center. The Corporation will continue to fulfill its obligation to repay the outstanding bonds, which mature in 2035. Despite the impact to the Corporation's net position in fiscal year 2016 due to the transfer of arena capital assets to the University, the Corporation still maintains a strong ability to fulfill its annual debt service requirements since the sources of pledged revenues remain unchanged.

REQUEST FOR INFORMATION

These financial statements are designed to provide detailed information on the Corporation's operations to the Corporation's Board, management, 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 CONVOCATION CORPORATION
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 516,369	$ 1,233,456
Accounts receivable	1,083,863	1,202,022
Due from the University of Central Florida	7,194,911	4,597,637
Due from the UCF Foundation, Inc.	65,166	2,028
Due from the UCF Athletics Association, Inc.	878	88,419
Prepaid expenses	169,633	38,228
Restricted cash and cash equivalents	9,459,940	13,642,544
Total current assets	18,490,760	20,804,334
Noncurrent assets		
Restricted cash and cash equivalents, less current portion	2,525,222	2,731,394
Capital assets, net of accumulated depreciation	81,385,654	84,423,933
Total noncurrent assets	83,910,876	87,155,327
Total Assets	102,401,636	107,959,661
DEFERRED OUTFLOW OF RESOURCES		
Deferred loss on refunding of debt, net	599,880	632,751
LIABILITIES		
Current liabilities		
Current portion of long-term debt	7,245,000	7,045,000
Accounts payable and accrued expenses	682,687	1,080,866
Interest payable	1,755,559	1,801,621
Due to the University of Central Florida	460,669	228,208
Due to the UCF Athletics Association, Inc.	609	11,175
Unearned revenue	1,885,859	2,153,102
Total current liabilities	12,030,383	12,319,972
Noncurrent liabilities		
Long-term debt, less current portion	182,212,650	189,514,234
Total Liabilities	194,243,033	201,834,206
DEFERRED INFLOW OF RESOURCES		
Deferred gain on refunding of debt, net	184,564	194,677
NET POSITION		
Net investment in capital assets	(26,614,466)	(27,588,316)
Restricted for:		
Debt service	3,394,946	8,008,020
Renewal and replacement	2,525,222	2,731,394
Other	4,309,435	3,832,903
Unrestricted	(75,041,218)	(80,420,472)
Total Net Position	$ (91,426,081)	$ (93,436,471)

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

UCF CONVOCATION CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating revenues		
Housing	$ 19,158,417	$ 18,975,135
Arena operations	9,636,793	11,730,553
Retail space rental	1,912,059	1,891,627
Total operating revenues	30,707,269	32,597,315
Operating expenses		
Services and supplies	11,743,021	14,830,394
Utilities and communications	2,858,796	2,500,057
Depreciation	3,096,104	3,545,751
Amortization	-	1,803,189
Other	85,035	198,138
Total operating expenses	17,782,956	22,877,529
Operating income	12,924,313	9,719,786
Nonoperating revenues (expenses)		
Interest income	132,223	184,395
Interest expense	(7,034,471)	(8,080,223)
Transfers to the University of Central Florida	(3,324,141)	(1,337,718)
Transfers to the UCF Athletics Association, Inc.	(650,000)	-
Transfers from the University of Central Florida	-	5,336
Loss on disposal of capital assets	(37,534)	(75,058,908)
Total nonoperating revenues (expenses)	(10,913,923)	(84,287,118)
Increase (decrease) in net position	2,010,390	(74,567,332)
Net position, beginning of year	(93,436,471)	(18,869,139)
Net position, end of year	$ (91,426,081)	$ (93,436,471)

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

UCF CONVOCATION CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities		
Receipts from housing operations	$ 18,886,554	$ 19,583,629
Receipts from retail space rental	1,949,215	1,889,575
Receipts from arena operations	9,722,416	11,838,043
Payments to suppliers and others	(14,930,912)	(17,081,614)
Net cash provided by operating activities	15,627,273	16,229,633
Cash flows from noncapital financing activities		
Net change in funds held by the University of Central Florida	(2,636,499)	(2,300,776)
Cash flows from capital and related financing activities		
Purchases of capital assets	(95,360)	(32,674)
Proceeds from issuance of debt	-	84,301,101
Payments on long-term debt	(7,045,000)	(97,814,786)
Interest paid	(7,114,359)	(7,880,351)
Transfers to the UCF Athletics Association, Inc.	(650,000)	-
Transfers from the University of Central Florida	-	5,336
Transfers to the University of Central Florida	(3,324,141)	(1,337,718)
Net cash used in capital and related financing activities	(18,228,860)	(22,759,092)
Cash flows from investing activities		
Interest income received	132,223	280,837
Net decrease in cash and cash equivalents	(5,105,863)	(8,549,398)
Cash and cash equivalents, beginning of year	17,607,394	26,156,792
Cash and cash equivalents, end of year	$ 12,501,531	$ 17,607,394
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 12,924,313	$ 9,719,786
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,096,104	5,348,940
Changes in assets and liabilities:		
Prepaid expenses	(131,405)	21,033
Accounts receivable	118,159	263,460
Accounts payable and accrued expenses	(398,179)	584,060
Due to the University of Central Florida	232,461	34,890
Due from the University of Central Florida	39,226	(98,985)
Due to the UCF Athletics Association, Inc.	(10,566)	11,175
Due from the UCF Athletics Association, Inc.	87,541	(88,419)
Due to the UCF Foundation, Inc.	-	(16,576)
Due from the UCF Foundation, Inc.	(63,138)	(203)
Unearned revenue	(267,243)	450,472
Net cash provided by operating activities	$ 15,627,273	$ 16,229,633
Cash and cash equivalents are presented on the Statements of Net Position as:		
Cash and cash equivalents	$ 516,369	$ 1,233,456
Current restricted cash and cash equivalents	9,459,940	13,642,544
Noncurrent restricted cash and cash equivalents	2,525,222	2,731,394
	$ 12,501,531	$ 17,607,394
Supplemental disclosure of noncash capital activities		
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	$ 37,534	$ 75,058,908

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

(1) Summary of Significant Accounting Policies:

The following is a summary of the more significant accounting policies and practices of the UCF Convocation 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 October 26, 2005. The Corporation was created by the University of Central Florida (the University), as a direct support organization of the University whose purpose was to finance, construct and operate residential halls, a convocation center, and surrounding retail spaces on behalf of the University. The Corporation is presented as a discrete 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, deferred inflows 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, deferred inflows of resources, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The Corporation follows GASB standards of accounting and financial reporting.

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

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

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

(e) **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.

(f) **Accounts receivable**—Accounts receivable are stated at the amount management expects to collect from balances at year-end, based on management's assessment of the credit history with organizations and individuals having outstanding balances and current relationships with them. There was no allowance for doubtful accounts recorded at June 30, 2017 and 2016.

(g) **Capital assets**—The Corporation's capital assets consist of buildings, infrastructure and other improvements, and furniture and equipment. These assets are capitalized and recorded at cost at the date of acquisition. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Construction in progress is depreciated beginning on the date the assets are placed in service. Other costs incurred for repairs and maintenance are expensed as incurred.

The Corporation has a capitalization threshold of $5,000 for furniture and equipment additions and a threshold of $100,000 for new buildings and improvements. Depreciation is computed on the straight-line basis over estimated useful lives ranging from 5 to 39 years.

(h) **Revenue recognition**—Housing revenues are generated from the Towers at Knights Plaza I, II, III and IV where students enter into annual housing contracts covering the fall, spring and summer semesters. Arena operations relate to ticket sales for all events and are recognized after the facility has been used for its intended purposes by customers. Revenues collected in advance are recorded as unearned revenue and are recognized as revenue at the time the event takes place. Retail space rental revenues consist of monthly lease agreements with outside vendors for the use of various retail space located at the Convocation Center.

(i) **Unearned revenue—**Unearned revenue consists of amounts collected by the arena in advance of event dates; these revenues will be recognized in the period when the event occurs. Unearned revenue also includes amounts received in advance from students associated with their summer term in the Towers at Knights Plaza I, II, III and IV; these revenues are recognized pro-rata based on the number of days in the current period.

(j) **Deferred outflows of resources—**The net investment in capital assets includes the effect of recognizing a deferred outflow of resources from the loss on refunding of debt of $599,880 and $632,751 at June 30, 2017 and 2016, respectively. The balance has been recognized as an expense beginning in 2016 when the debt was extinguished and will further decrease net investment in capital assets position over a 20-year repayment period of the new debt.

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

(k) **Deferred inflows of resources**—The unrestricted net position balance includes the effect of recognizing a deferred inflow of resources originating from the gain on refunding of debt of $184,564 and $194,677 at June 30, 2017 and 2016, respectively. The balance has been recognized as an expense beginning in 2016 when the debt was extinguished and will further increase unrestricted net position over a 20-year repayment period of the new debt.

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

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

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

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

(m) **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.

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.

(n) **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.

(2) Cash and Cash Equivalents:

The Corporation's restricted cash represents cash held by the Corporation's trustee in the Corporation's name. These funds consist of funds held for debt service payments and funds held in reserve as required in the trust agreement. For the year ended June 30, 2017 the cash was invested in a government money market fund. For the year ended June 30, 2016 the cash was invested in a government money market fund and short-term guaranteed investment contracts through a national bank in accordance with the University's investment policy for managing credit risks, which was adopted by the Corporation. The value of cash and cash equivalents held at the institution at June 30, 2017 and 2016, was $11,985,162 and $16,373,938, respectively.

The Corporation has cash invested by the University of $7,102,214 and $4,192,041 at June 30, 2017 and 2016, 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 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's 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.

Cash and cash equivalents at June 30, were as follows:

	2017	2016
Cash on hand	$ 516,369	$ 1,233,456
Money market funds	11,985,162	16,373,938
Cash and cash equivalents	$ 12,501,531	$ 17,607,394

Money market funds are uninsured and collateralized by securities held by the institution, not in the Corporation's name. The money market funds invest in diversified portfolios of high-quality, dollar-denominated short-term debt securities.

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

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/dealers. The Corporation's investments are held by a third party custodian, not in the name of the Corporation.

(3) **Capital Assets:**

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Decreases	Ending Balance
Depreciable capital assets:				
Buildings	$ 112,750,357	$ -	$ -	$ 112,750,357
Furniture and equipment	5,790,755	95,360	(46,919)	5,839,196
Total depreciable capital assets	118,541,112	95,360	(46,919)	118,589,553
Accumulated depreciation	(34,117,179)	(3,096,104)	9,384	(37,203,899)
Total depreciable capital assets, net	84,423,933	(3,000,744)	(37,535)	81,385,654
Total capital assets, net	$ 84,423,933	$ (3,000,744)	$ (37,535)	$ 81,385,654

(3) **Capital Assets:** (Continued)

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Decreases	Ending Balance
Depreciable capital assets:				
Buildings	$ 207,323,515	$ -	$ (94,573,158)	$ 112,750,357
Furniture and equipment	6,064,049	32,674	(305,968)	5,790,755
Total depreciable capital assets	213,387,564	32,674	(94,879,126)	118,541,112
Accumulated depreciation	(50,391,646)	(3,545,751)	19,820,218	(34,117,179)
Total depreciable capital assets, net	162,995,918	(3,513,077)	(75,058,908)	84,423,933
Total capital assets, net	$ 162,995,918	$ (3,513,077)	$ (75,058,908)	$ 84,423,933

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

The Corporation has no policy requiring collateral or other security to support receivables from related parties, as described in Note 6.

Related party receivables and payables are as follows at June 30:

	2017	2016
Due from the University of Central Florida	$ 7,194,911	$ 4,597,637
Due from the UCF Foundation, Inc.	65,166	2,028
Due from the UCF Athletics Association, Inc.	878	88,419
Due to the University of Central Florida	(460,669)	(228,208)
Due to the UCF Athletics Association, Inc.	(609)	(11,175)

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

Housing

In May 2014, the Corporation issued a $58,645,000 Refunding Certificate of Participation, Series 2014A to a bank. The certificate will mature on October 1, 2034 and bears interest at a fixed rate of 3.61 percent per annum. Proceeds of $58,482,785 from the Refunding Certificate plus an additional $1,236,784 from a Series 2004A account were used to purchase $59,719,568 of U.S. 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 Series 2004A tax-exempt certificates, which defeased the certificates. The trust assets and the liability for the defeased certificates are not included in the statement of net position. The trust extinguished the defeased certificates on October 1, 2014.

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

In October, 2014, the Corporation issued a $58,930,000 Refunding Certificate of Participation, Series 2014B to a bank. The certificate will mature on October 1, 2035 and bears interest at a fixed rate of 3.80 percent per annum. Proceeds of $58,770,583 from the Refunding Certificate plus an additional $1,577,608 from a Series 2005A account were used to purchase $60,348,191 of U.S. 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 Series 2005A tax-exempt certificates, which defeased the certificates. The trust assets and the liability for the defeased certificates are not included in the statement of net position. The trust extinguished the defeased certificates on October 1, 2015.

Arena

In August 2015, the 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. The bonds will mature on October 1, 2035 and bear interest at fixed rates ranging from 1.50 to 5.00 percent per annum. Proceeds of $84,301,101 from the Refunding Revenue Bonds plus an additional $10,267,938 from the Corporations Debt Service accounts were used to purchase $94,569,039 of U.S. 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 Series 2005A&B certificates, which defeased the certificates. The trust extinguished the defeased certificates on October 1, 2015.

The extinguishment of the defeased certificates terminated the ground lease between the Corporation and the University. All related building and building improvement assets on the leased land transferred to the University.

With each debt refunding the Corporation entered into separate support agreements with the University, whereby, in the event that funds available to pay debt service on the Series 2014A and 2014B refunding certificates of participation or funds available to pay debt service on the 2015A and 2015B revenue bonds are expected to be less than 120 percent coverage of the respective debt service payments due, the University agrees to defer collecting certain expenditures to cover any such deficiencies.

The following is a schedule of future principal payments for the certificates as of June 30, 2017:

Fiscal Year Ending June 30,	Certificates of Participation Payable		Total Principal and Interest
	Principal	Interest	
2018	$ 4,205,000	$ 3,947,274	$ 8,152,274
2019	4,355,000	3,788,819	8,143,819
2020	4,515,000	3,624,621	8,139,621
2021	4,695,000	3,454,119	8,149,119
2022	4,860,000	3,277,225	8,137,225
2023-2027	27,100,000	13,500,664	40,600,664
2028-2032	32,440,000	8,003,289	40,443,289
2033-2036	26,430,000	1,794,455	28,224,455
Total	$ 108,600,000	$ 41,390,466	$ 149,990,466

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

The following is a schedule of future principal payments for the revenue bonds as of June 30, 2017:

Fiscal Year Ending June 30,	Revenue Bonds Payable Principal	Revenue Bonds Payable Interest	Total Principal and Interest
2018	$ 3,040,000	$ 2,974,322	$ 6,014,322
2019	3,095,000	2,920,573	6,015,573
2020	3,165,000	2,848,478	6,013,478
2021	3,255,000	2,758,508	6,013,508
2022	3,360,000	2,654,243	6,014,243
2023-2027	18,810,000	11,259,077	30,069,077
2028-2032	22,895,000	7,173,894	30,068,894
2033-2036	22,205,000	1,848,325	24,053,325
Subtotals	79,825,000	34,437,420	114,262,420
Plus: Unamortized premium	1,032,650	-	1,032,650
Total	$ 80,857,650	$ 34,437,420	$ 115,295,070

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Certificates of participation	$ 112,645,000	$ -	$ (4,045,000)	$ 108,600,000	$ 4,205,000
Revenue bonds	82,825,000	-	(3,000,000)	79,825,000	3,040,000
Unamortized premium	1,089,234	-	(56,584)	1,032,650	-
Total long-term debt	$ 196,559,234	$ -	$ (97,416,854)	$ 189,457,650	$ 7,245,000

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Certificates of participation	$ 208,775,000	$ -	$ (96,130,000)	$ 112,645,000	$ 4,045,000
Revenue Bonds	-	83,160,000	(335,000)	82,825,000	3,000,000
Unamortized premium	1,322,676	1,141,101	(1,374,543)	1,089,234	-
Unamortized discount	(422,685)	-	422,685	-	-
Total long-term debt	$ 209,674,991	$ 84,301,101	$ (97,416,858)	$ 196,559,234	$ 7,045,000

Interest expense for the years ending June 30, 2017 and 2016, was $7,034,471 and $8,080,223, respectively.

(6) **Related Party Transactions:**

The Corporation has entered into various support agreements with the University (as more fully described in Note 5 above), whereby, 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. Transfers from the University totaled $5,336 for the year ended June 30, 2016, which represented a return of minor construction savings on funds held by the University for Convocation improvements. There were no transfers from the University for the year ended June 30, 2017.

In fiscal years 2017 and 2016, the 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 $3,324,141 and $1,337,718 for fiscal years ended June 30, 2017 and 2016, respectively. In fiscal year 2017, the Corporation's governing board also decided to remit $650,000 in available surplus funds to the UCF Athletics Association Inc. (the Association).

During 2008, the Corporation entered into a rental agreement with the Association for the use of the Convocation Center to support the Association's athletic program. Rental revenue from the Association totaled $535,000 for the years ended June 30, 2017 and 2016, and is included in arena operations revenues on the statement of revenues, expenses and changes in net position.

During 2015, the Corporation entered into an operating agreement with the University for the Convocation to maintain and operate the Convocation Center throughout the year. Operating revenue from the University totaled $2,200,000 for each of the years ended June 30, 2017, and 2016, and is included in arena operations revenues on the statement of revenues, expenses, and changes in net position.

During the year ended June 30, 2012, the Corporation entered into a lease agreement with the University for the University's use of the Corporation's parking garages throughout the year. Rental revenue from the University of Central Florida totaled $1,036,388 for each of the years ended June 30, 2017 and 2016, and is included in housing revenues on the statement of revenues, expenses and changes in net position.

The Corporation also has various rental agreements with the University for the use of retail space surrounding the arena. Revenues generated from the agreements were $1,381,565 and $1,372,075 for the years ended June 30, 2017 and 2016, respectively, and is included in retail space rental revenues on the statement of revenues, expenses and changes in net position.

(7) **Operating Leases Paid to the Corporation:**

The Corporation leases retail space to the University and other entities under operating leases with existing terms of one to five years (see Note 6).

(7) **Operating Leases Paid to the Corporation:** (Continued)

At June 30, 2017, approximate future minimum rental payments to be received under non-cancellable operating leases are as follows:

Fiscal Year Ending June 30	Amount
2018	$ 1,272,118
2019	717,134
2020	545,988
2021	356,497
2022	295,417
Total future minimum rentals	$ 3,187,154

(8) **Deficit Net Position:**

The Corporation has a deficit net position for the year ended June 30, 2017 and 2016 of $91,426,081 and $93,436,471, respectively. This deficit is attributed to the transfer of all arena related building and building improvement assets to the University as a result of the termination of the arena ground lease between the Corporation and the University with the August 2015 debt refunding. The Corporation's arena related debt was previously included as a component of the net investment in capital assets portion of net position balance but is now included as a component of unrestricted net position. The Corporation's arena related debt reflected as a component of unrestricted net position for the year ended June 30, 2017 and 2016 was $81,042,214 and $84,108,911, respectively.

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

To the Board of Directors,
UCF Convocation Corporation:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the UCF Convocation Corporation (the Corporation), a direct support organization and component unit of the University of Central Florida (the University), as of and for the year ended June 30, 2017, 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 5, 2017.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

James Moore & Co., P.L.

Gainesville, Florida
October 5, 2017