State of Florida Auditor General

Financial Audit

Report No. 2019-189
March 2019

FLORIDA GULF COAST UNIVERSITY

For the Fiscal Year Ended
June 30, 2018

Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2017-18 fiscal year, Dr. Michael V. Martin served as President of Florida Gulf Coast University and the following individuals served as Members of the Board of Trustees:

[a] Chair position vacant 1-6-18, through 1-8-18.
[b] Faculty Senate Chair.
[c] Trustee position vacant 6-21-18, through 6-30-18.
[d] Trustee position vacant 7-1-17, through 1-25-18.
[e] Student Body President.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The team leader was Claudia A. Salgado, and the audit was supervised by Deirdre F. Waigand, CPA.

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

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FLORIDA GULF COAST UNIVERSITY

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SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States.

Audit Objectives and Scope

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

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

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

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

Audit Methodology

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

Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL
STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Florida Gulf Coast University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the blended component unit, which represent 5 percent, 57 percent, 7 percent, and 8 percent, respectively, of the assets, liabilities, net position, and revenues, reported for Florida Gulf Coast University. In addition, we did not audit the financial statements of the discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. The financial statements for the blended and discretely presented component units were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those financial statements, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Emphasis of Matter

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

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of the University's Proportionate Share of the Total Other Postemployment Benefits Liability**, **Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of University Contributions – Florida Retirement System Pension Plan**, **Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of University Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2019, on our consideration of Florida Gulf Coast University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Florida Gulf Coast University's internal control over financial reporting and compliance.

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
March 26, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

The University's assets totaled $665.8 million at June 30, 2018. This balance reflects a $18.5 million, or 2.9 percent, increase as compared to the 2016-17 fiscal year, resulting from increases in State capital appropriations and Federal and State Student Financial Aid income related to an increase in student enrollment and changes in both need-based and merit-based funding. The increase in assets was accompanied with an increase in liabilities of $39.3 million, or 12.9 percent, totaling $345 million at June 30, 2018, compared to $305.7 million at June 30, 2017. Deferred outflows of resources increased by $4.4 million and deferred inflows of resources increased by $10.1 million, as compared to the 2016-17 fiscal year. As a result, the University's overall net position decreased by $26.4 million, resulting in a year-end balance of $341.5 million.

The increases in liabilities, deferred outflows and deferred inflows of resources, and a decrease in net position were largely impacted by the adoption of Governmental Accounting Standards Board's (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits (OPEB) Other than Pensions,* which supersedes GASB Statement No. 45. The accounting standard requires the University, as a participating employer in the Florida Division of State Group Insurance, to recognize the balance of its proportionate share of the collective net OPEB liabilities of the Other Postemployment Benefits Program, rather than continue amortization over the remaining 20 years under GASB Statement No. 45. Changes in liabilities are recognized through the Statement of Revenues, Expenses, and Changes in Net Position, or reported as deferred outflows or inflows of resources on the Statement of Net Position, depending on the nature of the change. The adoption of GASB Statement No. 75 also resulted in an adjustment to beginning net position of $38.8 million.

The University's revenues totaled $252.6 million for the 2017-18 fiscal year, representing a 5.6 percent increase compared to the 2016-17 fiscal year due mainly to increases in State capital appropriations, and Federal and State student financial aid, offset by decreases in State noncapital appropriations and net student tuition and fees. Operating expenses totaled $230.4 million for the 2017-18 fiscal year, representing an increase of 2.3 percent as compared to the 2016-17 fiscal year due mainly to increases in compensation and employee benefits, scholarships, fellowships, and waivers, and depreciation, offset with a slight decrease in services and supplies.

Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University had a deficit in the unrestricted net position of $56.1 million and its blended component unit had an unrestricted net position of $13.3 million, as a result the University reported a combined deficit in the unrestricted net position of $42.8 million. The continued deficit in the University's unrestricted net position was the result of recording long-term liabilities within the annually funded operational fund as required by Government Accounting Standards. The following table detailing the components of the University's ending net position demonstrates that the University's negative unrestricted net position was caused by long-term liabilities that will be paid over time and financed by future appropriations.

Unrestricted Net Position

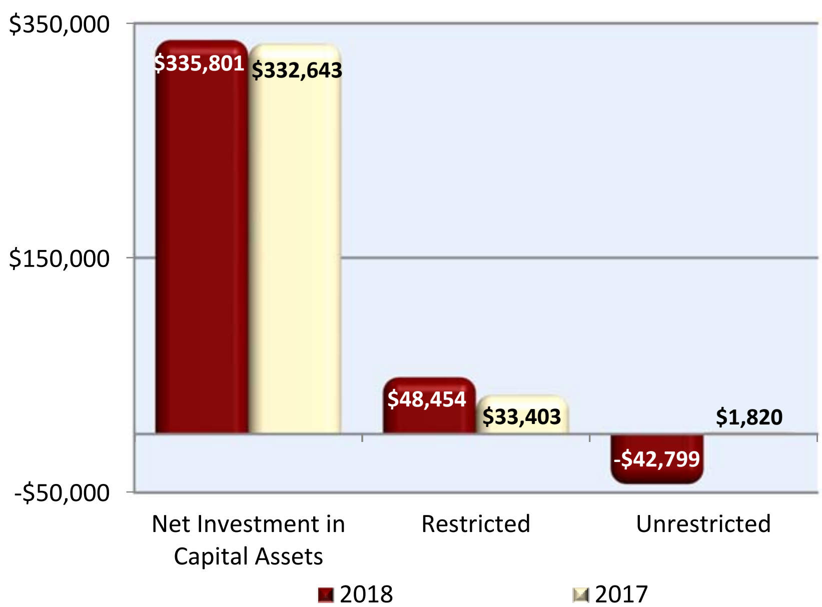
(in Thousands)

		Amount
Unrestricted Fund Balance		$ 57,533
Amount to be Financed in the Future:		
Compensated Absences Liability	$ (12,520)	
Other Postemployment Benefits Liability	(65,178)	
FRS Net Pension Liability	(42,471)	
HIS Net Pension Liability	(14,369)	
Deferred Outflows of Resources	31,108	
Deferred Inflows of Resources	(10,156)	
Less, Total Amount to be Financed in the Future		(113,586)
University's Unrestricted Net Position		(56,053)
Blended Component Unit's Unrestricted Net Position		13,254
Total Ending Unrestricted Net Position		$ (42,799)

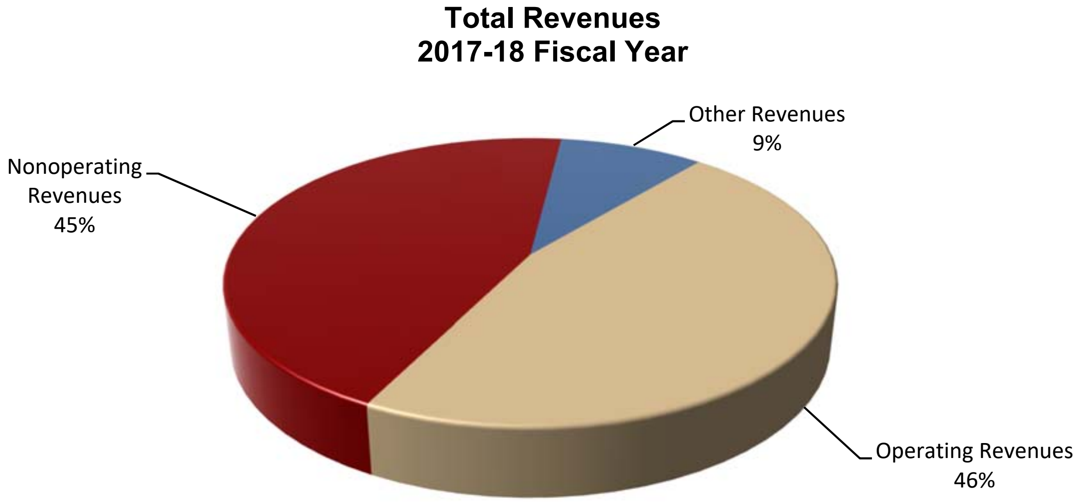
The University's comparative total net position by category for the fiscal years ended June 30, 2018, and June 30, 2017, is shown in the following graph:

Net Position

(In Thousands)



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



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. Based on the application of the criteria for determining component units, the Florida Gulf Coast University Financing Corporation (Corporation) is included within the University reporting entity as a blended component unit, and the Florida Gulf Coast University Foundation, Inc. (Foundation) is included within the University reporting entity as discretely presented component unit.

This MD&A focuses on the University, excluding the discretely presented component unit. MD&A information regarding the Corporation and Foundation component units can be found in their separately issued audit reports. Information regarding these component units, including summaries of the blended component unit's separately issued financial statements, is presented in the notes to financial statements.

The Statement of Net Position

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

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

Condensed Statement of Net Position at June 30

(In Thousands)

	2018	2017
Assets		
Current Assets	$ 123,682	$ 100,122
Capital Assets, Net	529,799	531,800
Other Noncurrent Assets	12,308	15,328
Total Assets	665,789	647,250
Deferred Outflows of Resources	31,108	26,670
Liabilities		
Current Liabilities	24,717	22,602
Noncurrent Liabilities	320,306	283,092
Total Liabilities	345,023	305,694
Deferred Inflows of Resources	10,418	360
Net Position		
Net Investment in Capital Assets	335,801	332,643
Restricted	48,454	33,403
Unrestricted	(42,799)	1,820
Total Net Position	$ 341,456	$ 367,866

The University's financial position, as a whole, decreased during the fiscal year ended June 30, 2018, with a decrease of net position in the amount of $26.4 million, or 7.2 percent, from the 2016-17 fiscal year primarily due to the increases in liabilities, and deferred outflows and inflows of resources by the adoption of GASB Statement No. 75, which superseded GASB Statement No. 45. The adoption mainly affected the unrestricted net position with a decrease of $44.6 million. This decrease in unrestricted net position was offset by increases in restricted net position of $15.1 million, or 45.1 percent, and net investment in capital assets of $3.2 million, or 0.9 percent. The University continues to experience sound overall financial condition and health.

Total assets increased $18.5 million, or 2.9 percent, mainly in current assets, and was offset by decreases in net capital assets, and other noncurrent assets. The slight increase in net capital assets was primarily from State Capital appropriations of Public Education Capital Outlay (PECO) projects, offset by the depreciation of capital assets. Funds due from State increased $16.7 million, or 106.2 percent, for the Integrated Watershed/Coastal Studies (Academic 9) Building, South Village Student Recreation Center and the WGCU – TV/FM Transmission Tower project. Deferred outflows of resources associated with net pension resources increased by $3.9 million, or 14.5 percent as compared to 2016-17 fiscal year.

Total liabilities increased $39.3 million, or 12.9 percent. The noncurrent liabilities for pension and for other postemployment benefits increased while bonds payable and loans payable slightly decreased as a result of principal payments. Deferred inflows of resources associated with net pension resources increased by $2.2 million, or 611.1 percent as compared to 2016-17 fiscal year. Due to the implementation of GASB Statement No. 75, the University recognized deferred inflows of resources associated with OPEB for $7.6 million. Restricted net position includes $8.1 million in the required debt service reserve accounts for Capital Improvement Revenue Bonds, Series 2010A, 2010B, 2011A, 2013A, and Loan Agreements 2005A and 2005B, and $4 million restricted by the covenants of the Series 2008A, and 2009A bond reimbursement agreements.

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

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

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

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

(In Thousands)

	2017-18	2016-17
Operating Revenues	$ 117,043	$ 120,296
Less, Operating Expenses	230,388	225,224
Operating Loss	(113,345)	(104,928)
Net Nonoperating Revenues	102,610	97,450
Loss Before Other Revenues	(10,735)	(7,478)
Other Revenues	23,119	12,990
Net Increase In Net Position	12,384	5,512
Net Position, Beginning of Year	367,866	362,354
Adjustment to Beginning Net Position (1)	(38,794)	-
Net Position, Beginning of Year, as Restated	329,072	362,354
Net Position, End of Year	$ 341,456	$ 367,866

(1) Adjustment to beginning net position is due to the implementation of GASB Statement No. 75, which is a change in accounting principle that addresses accounting and financial reporting for other postemployment benefits.

Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value. Operating revenues generally consist of student tuition and fees, grants and contracts, and auxiliary service revenues from students and others to provide them with instruction and other goods and services.

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

Operating Revenues
For the Fiscal Years

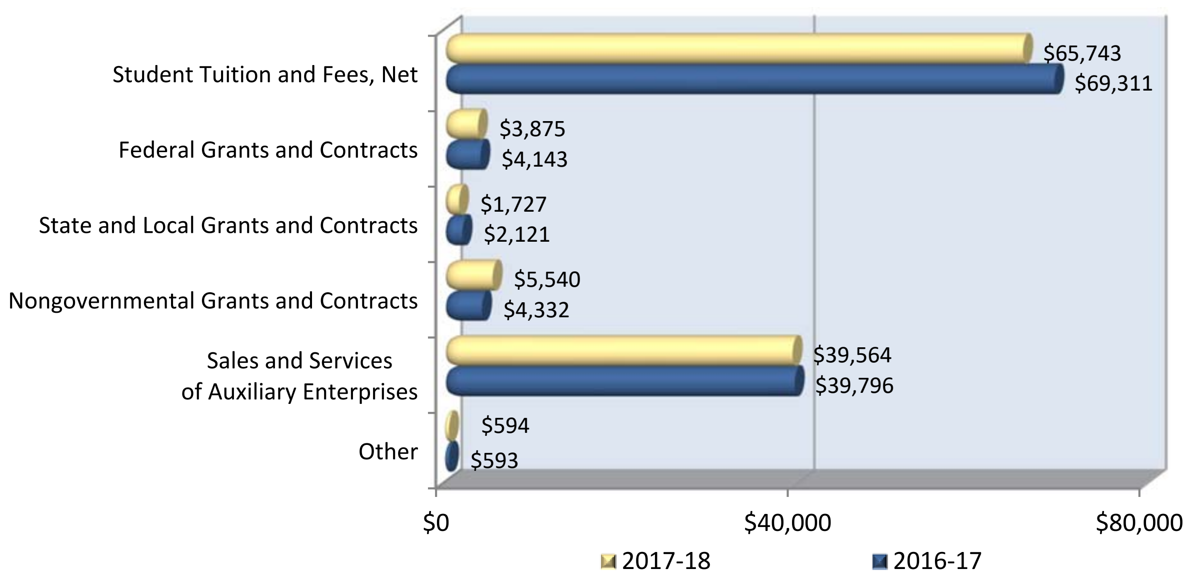
(In Thousands)

	2017-18	2016-17
Student Tuition and Fees, Net	$ 65,743	$ 69,311
Federal Grants and Contracts	3,875	4,143
State and Local Grants and Contracts	1,727	2,121
Nongovernmental Grants and Contracts	5,540	4,332
Sales and Services of Auxiliary Enterprises	39,564	39,796
Other	594	593
Total Operating Revenues	$ 117,043	$ 120,296

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

Operating Revenues

(In Thousands)



University operating revenue changes were the result of the following factors:

- Total operating revenues for the 2017-18 fiscal year were $117 million, for a decrease of $3.3 million, or 2.7 percent over the 2016-17 fiscal year. Net student tuition and fees of $65.7 million comprised 56.2 percent of total operating revenues.
  - The gross student tuition and fees of $102.8 million increased $4.1 million, or 4.1 percent over the 2016-17 fiscal year.
  - A tuition allowance, which represents the difference between the stated charges for goods and services provided by the University and the amount that is actually paid by a student or third party making payment on behalf of a student, totaled $37.1 million, for an increase of $7.7 million, or 26 percent over 2016-17 year due to increased institutional aid such as Bright Futures, Pell, Florida Student Assistance Grant (FSAG), and Foundation Scholarships.

- The increase in gross student tuition and fees, offset with the increase in tuition allowance resulted in net student tuition and fees of $65.7 million, which represents a net decrease of $3.6 million, or 5.1 percent, over the 2016-17 fiscal year.
- Increased student enrollment is the main driver for the increase in gross tuition and fees revenue, while increased institutional aid and waivers provided the increase in tuition allowance.

Operating Expenses

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

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

Operating Expenses
For the Fiscal Years

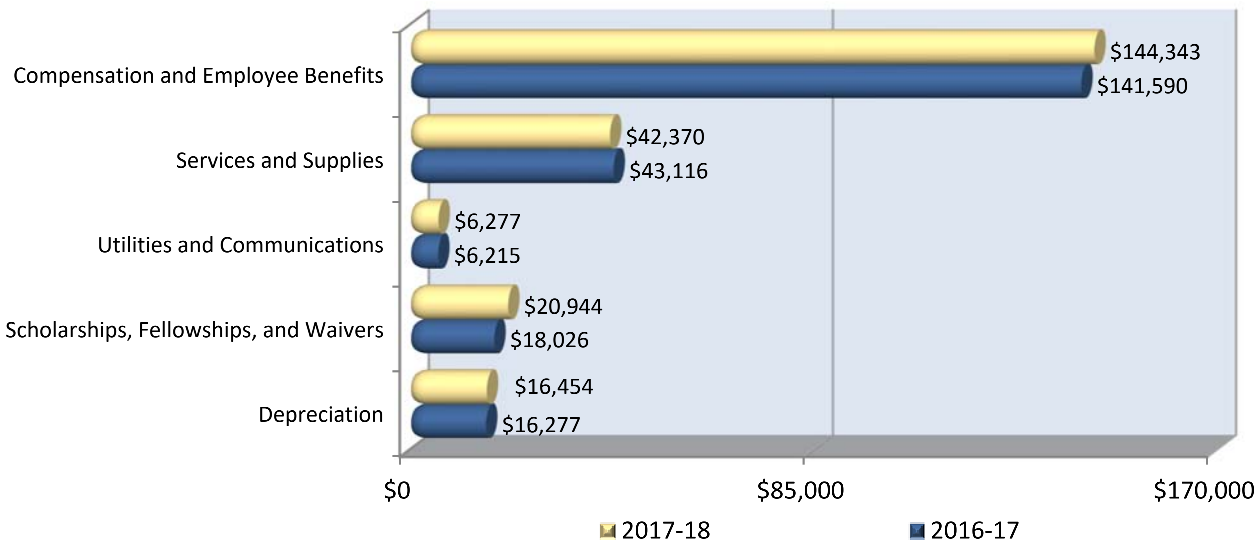
(In Thousands)

	2017-18	2016-17
Compensation and Employee Benefits	$ 144,343	$ 141,590
Services and Supplies	42,370	43,116
Utilities and Communications	6,277	6,215
Scholarships, Fellowships, and Waivers	20,944	18,026
Depreciation	16,454	16,277
Total Operating Expenses	$ 230,388	$ 225,224

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

Operating Expenses

(In Thousands)



Changes in operating expenses were the result of the following factors:

Total operating expenses for the 2017-18 fiscal year were $230.4 million, an increase of $5.2 million, or 2.3 percent, over the 2016-17 fiscal year. Compensation and employee benefits increased $2.8 million, or 1.9 percent, over the 2016-17 fiscal year. Employee compensation decreased by $3.6 million and was offset by an increase of $6.4 million in benefits expense.

Nonoperating Revenues and Expenses

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

Nonoperating Revenues (Expenses)
For the Fiscal Years

(In Thousands)

	2017-18	**2016-17**
State Noncapital Appropriations	$ 72,173	$ 76,438
Federal and State Student Financial Aid	32,449	24,563
Investment Income (Loss)	1,220	(484)
Other Nonoperating Revenues	6,635	5,384
Interest on Capital Asset-Related Debt	(7,973)	(8,338)
Loss on Disposal of Capital Assets	(56)	(56)
Other Nonoperating Expenses	(1,838)	(57)
Net Nonoperating Revenues	$ 102,610	$ 97,450

The increase of $5.2 million, or 5.3 percent in net nonoperating revenues is primarily due to the increase in Federal and State student financial aid, net investment income and other nonoperating revenues, and offset by a decrease in State noncapital appropriations. Federal and State student financial aid increased $7.9 million, or 32.1 percent from increased funding for Federal Pell grants, and State Bright Futures academic grants. State noncapital appropriations decreased by $4.3 million, or 5.6 percent, due to the cuts of $8 million in Performance-Based Funding and $1 million in Academic Attainment, which were offset by new State funding of $5.5 million specifically for Talent Gaps programs, World Class Faculty, and Graduate Programs. The University's investments average rate of return increased by 0.21 percent, and average daily balance increased by $8.2 million, or 12.6 percent, as compared to the 2016-17 fiscal year resulting in increased net investment income of $1.7 million, or 352.1 percent.

Other Revenues

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

Other Revenues
For the Fiscal Years

(In Thousands)

	2017-18	2016-17
State Capital Appropriations	$ 17,125	$ 7,946
Capital Grants, Contracts, Donations, and Fees	5,994	5,044
Total	$ 23,119	$ 12,990

State capital appropriations increased $9.2 million, or 115.5 percent, as compared to the 2016-17 fiscal year, primarily due to funding of the Integrated Watershed/Coastal Studies (Academic 9) Building project, the WGCU-TV/FM Transmission Tower Replacement project, and the South Village Student Recreation Center project. State contributions (appropriations) for capital projects, depending upon the various stages of planning and completion, will fluctuate from year to year.

The Statement of Cash Flows

The statement of cash flows provides information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the University's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

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

Condensed Statement of Cash Flows
For the Fiscal Years

(In Thousands)

	2017-18	2016-17
Cash Provided (Used) by:		
Operating Activities	$ (86,284)	$ (78,155)
Noncapital Financing Activities	109,878	106,234
Capital and Related Financing Activities	(22,708)	(20,837)
Investing Activities	(677)	(7,276)
Net Increase (Decrease) in Cash and Cash Equivalents	209	(34)
Cash and Cash Equivalents, Beginning of Year	496	530
Cash and Cash Equivalents, End of Year	$ 705	$ 496

Major sources of funds included in operating activities are net student tuition and fees of $65.6 million, Federal, State and local grants and contracts of $11.3 million, and sales and services of auxiliary enterprises of $39 million. Major uses of funds were payments made to and on behalf of employees totaling $134.5 million, payments to suppliers totaling $46.5 million, and payments to and on behalf of students for scholarships and fellowships totaling $20.9 million. The increase in cash used by operating activities as compared to the 2016-17 fiscal year was due primarily to an increase in cash used for payments to and on behalf of students for scholarships and fellowships, and payments to employees, as well as a decrease in net student tuition and fees due to increased institutional waivers.

The largest source of inflow of cash from noncapital financing activities was State noncapital appropriations in the amount of $72.2 million. Also included in noncapital financing revenues was Federal and State student financial aid of $32.4 million and $46.3 million of Federal direct loan program receipts. The major use of funds was Federal direct loan program disbursements of $46.1 million.

Net cash used by capital and related financing activities was $22.7 million. Source of cash was mainly provided by proceeds of refunding bonds of $62.8 million, which was used to defease principal on asset related debt. Cash used was primarily due from $11.9 million for the purchase or construction of capital assets, and $76 million in principal and interest payments on asset related debt, including the aforementioned defeasement.

Cash used by investing activities was $0.7 million from the net purchases of investments.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the University had $698.7 million in capital assets, less accumulated depreciation of $168.9 million, for net capital assets of $529.8 million. Depreciation charges for the current fiscal year totaled $16.5 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30

(In Thousands)

	2018	2017
Land	$ 51,647	$ 51,647
Buildings	424,092	427,171
Construction in Progress	3,274	6,092
Infrastructure and Other Improvements	24,390	22,448
Furniture and Equipment	21,034	19,873
Library Resources	2,328	2,045
Property Under Capital Leases	539	14
Works of Art and Historical Treasures	2,275	2,309
Computer Software and Other Capital Assets	220	201
Capital Assets, Net	$ 529,799	$ 531,800

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

Capital Expenses and Commitments

Major capital disbursements through June 30, 2018, were incurred on the following projects: South Village Student Recreation Center, South Access Road, and the North Lake Village Dining Facility and Site Improvements. The University's construction commitments at June 30, 2018, are as follows:

	Amount (In Thousands)
Total Committed	$ 46,020
Completed to Date	(3,274)
Balance Committed	$ 42,746

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

Debt Administration

As of June 30, 2018, the University had $193.7 million in outstanding bonds payable, loans payable, and capital leases payable representing a decrease of $5.4 million, or 2.7 percent, from the prior fiscal year resulting from principal payments. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt at June 30

(In Thousands)

	2018	2017
Bonds Payable	$ 183,245	$ 188,647
Loans Payable	10,000	10,500
Capital Leases Payable	492	10
Total	$ 193,737	$ 199,157

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

Economic Factors That Will Affect the Future

The University is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on its financial position or operations during the 2018-19 fiscal year. The University's financial outlook for the future continues to be positive. The level of State support, and student tuition and fee increases impact the University's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. The level of State support is one of the key factors influencing the University's activities. Because of the University's improved ranking in the State's performance metrics, an increase in State funding is anticipated in the 2018-19 fiscal year. While student enrollment increases, net student tuition and fees are expected to remain constant in the 2018-19 fiscal year due to Federal and State student financial aid, and institutional aid and waivers. Resources will continue to be managed through expenditure analyses and efficiencies.

The budget that the Florida Legislature adopted for the 2018-19 fiscal year provided $95 million for the University's State noncapital appropriations, or an increase of 31.7 percent from the 2017-18 fiscal year mainly from the restoration of the University's Performance-Based funding.

Another significant factor in the University's economic position relates to its ability to recruit and retain high quality students. The Fall 2018 enrollment of 15,127 students increased 1.2 percent over the final Fall 2017 enrollment of 14,943 students. First time-in-college freshman admission of 2,928 students increased 11.6 percent from final enrollment of 2,624 students in the 2017-18 fiscal year. Efforts to improve retention, such as an aggressive marketing plan to recruit qualified students, enhanced intervention to assist academic success, and the Soar in 4 financial incentive program launched in Summer 2015 will help ensure total enrollment continues in a positive trend. In the 2018-19 fiscal year, the University expects an increase in revenue from student tuition and fees due to increased enrollment, as well as an increase in revenue from student housing due to improved occupancy from the increased first time-in-college freshmen that normally opt to live on campus.

The State has approved and appropriated funds in the amount of $16.5 million to the University's capital budget for the 2018-19 fiscal year. Public Education Capital Outlay appropriations for the 2018-19 fiscal year are for capital improvement projects in the amount of $14 million for the Integrated Watershed/Coastal Studies (Academic 9) Building, and repairs and maintenance in the amount of

$0.7 million. The Capital Improvement Fee appropriation of $1.7 million for the 2018-19 fiscal year is for continued funding of the South Village Student Recreation Center.

Requests for Information

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Mr. Steve Magiera, CPA, Vice President of Administration and Finance, Florida Gulf Coast University, 10501 FGCU Boulevard South, Fort Myers, Florida 33965.

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FLORIDA GULF COAST UNIVERSITY
A Component Unit of the State of Florida
Statement of Net Position

June 30, 2018

	University	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 314,468	$ 20,696,953
Investments	86,180,395	1,904,737
Accounts Receivable, Net	4,759,291	966,066
Loans Receivable, Net	11,967	-
Due from State	32,416,310	-
Total Current Assets	123,682,431	23,567,756
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	390,666	-
Restricted Investments	11,916,825	94,459,199
Other Investments	-	590,095
Accounts and Pledges Receivable, Net	-	1,206,586
Real Estate Held for Investment	-	11,693,500
Depreciable Capital Assets, Net	473,083,908	-
Nondepreciable Capital Assets	56,714,683	-
Other Noncurrent Assets	-	10,914
Total Noncurrent Assets	542,106,082	107,960,294
Total Assets	665,788,513	131,528,050
DEFERRED OUTFLOWS OF RESOURCES		
Other Postemployment Benefits	565,000	-
Pensions	30,542,914	-
Total Deferred Outflows of Resources	31,107,914	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	10,244,918	62,412
Construction Contracts Payable	637,610	-
Salary and Wages Payable	4,633,082	-
Deposits Payable	694,146	-
Unearned Revenue	538,180	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	5,485,000	-
Loans Payable	400,000	-
Capital Leases Payable	160,567	-
Compensated Absences Payable	983,359	-
Other Postemployment Benefits Payable	536,000	-
Net Pension Liability	404,076	-
Gift Annuities Payable	-	79,307
Total Current Liabilities	24,716,938	141,719

FLORIDA GULF COAST UNIVERSITY
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2018

	University	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	177,760,172	-
Loans Payable	9,600,000	-
Capital Leases Payable	330,991	-
Compensated Absences Payable	11,536,683	-
Other Postemployment Benefits Payable	64,642,000	-
Net Pension Liability	56,435,563	-
Other Noncurrent Liabilities	-	461,362
Total Noncurrent Liabilities	320,305,409	461,362
Total Liabilities	345,022,347	603,081
DEFERRED INFLOWS OF RESOURCES		
Deferred Gain on Bond Debt Refunding	261,463	-
Other Postemployment Benefits	7,595,939	-
Pensions	2,560,207	977,641
Total Deferred Inflows of Resources	10,417,609	977,641
NET POSITION		
Net Investment in Capital Assets	335,800,398	-
Restricted for Nonexpendable:		
Endowment	-	74,868,547
Restricted for Expendable:		
Debt Service	12,162,367	-
Loans	536,363	-
Capital Projects	31,283,374	-
Other	4,472,582	43,900,550
Unrestricted	(42,798,613)	11,178,231
TOTAL NET POSITION	$ 341,456,471	$ 129,947,328

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

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FLORIDA GULF COAST UNIVERSITY
A Component Unit of the State of Florida
Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended June 30, 2018

	University	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $37,090,327 ($3,505,877 Pledged for the Parking Facility Capital Improvement Debt)	$ 65,743,334	$ -
Federal Grants and Contracts	3,874,870	-
State and Local Grants and Contracts	1,726,914	-
Nongovernmental Grants and Contracts	5,540,095	-
Sales and Services of Auxiliary Enterprises ($140,305 Pledged for Parking Facility Capital Improvement Debt, $29,128,122 Pledged for Housing Facility Capital Improvement Debt)	39,563,580	-
Gifts and Donations	-	8,598,201
Rental Income Other	-	3,051,455
Other Operating Revenues	594,037	-
Total Operating Revenues	117,042,830	11,649,656
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	144,342,481	-
Services and Supplies	42,369,447	-
Utilities and Communications	6,277,346	-
Scholarships, Fellowships, and Waivers	20,944,445	3,163,757
Depreciation	16,453,747	-
General and Administrative	-	1,319,731
University Support	-	6,914,143
Program Services	-	4,716,492
Other Operating Expenses	-	25,617
Total Operating Expenses	230,387,466	16,139,740
Operating Loss	(113,344,636)	(4,490,084)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	72,172,951	-
Federal and State Student Financial Aid	32,449,117	-
Investment Income	1,219,666	7,193,070
Other Nonoperating Revenues	6,634,566	-
Interest on Capital Asset-Related Debt	(7,972,554)	(19,971)
Loss on Disposal of Capital Assets	(55,565)	-
Other Nonoperating Expenses	(1,838,057)	-
Net Nonoperating Revenues	102,610,124	7,173,099
Income (Loss) Before Other Revenues	(10,734,512)	2,683,015
State Capital Appropriations	17,124,702	-
Capital Grants, Contracts, Donations, and Fees	5,994,376	3,724,592
Increase in Net Position	12,384,566	6,407,607
Net Position, Beginning of Year	367,866,269	123,671,032
Adjustment to Beginning Net Position	(38,794,364)	(131,311)
Net Position, Beginning of Year, as Restated	329,071,905	123,539,721
Net Position, End of Year	$ 341,456,471	$ 129,947,328

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

FLORIDA GULF COAST UNIVERSITY
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2018

		University
CASH FLOWS FROM OPERATING ACTIVITIES		
Student Tuition and Fees, Net	$	65,597,291
Grants and Contracts		11,253,021
Sales and Services of Auxiliary Enterprises		39,048,059
Payments to Employees		(134,475,091)
Payments to Suppliers for Goods and Services		(46,514,158)
Payments to Students for Scholarships and Fellowships		(20,944,445)
Loans Issued to Students		(81,525)
Collection on Loans to Students		74,842
Other Operating Disbursements		(241,655)
Net Cash Used by Operating Activities		(86,283,661)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Noncapital Appropriations		72,172,951
Federal and State Student Financial Aid		32,449,117
Federal Direct Loan Program Receipts		46,320,000
Federal Direct Loan Program Disbursements		(46,077,803)
Net Change in Funds Held for Others		(380,178)
Other Nonoperating Receipts		5,394,582
Net Cash Provided by Noncapital Financing Activities		109,878,669
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Debt and Leases		62,839,093
State Capital Appropriations		426,528
Capital Grants, Contracts, Donations and Fees		1,909,430
Purchase or Construction of Capital Assets		(11,912,964)
Principal Paid on Capital Debt and Leases		(67,741,956)
Interest Paid on Capital Debt and Leases		(8,228,500)
Net Cash Used by Capital and Related Financing Activities		(22,708,369)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		177,548,814
Purchases of Investments		(179,920,838)
Investment Income		1,694,694
Net Cash Used by Investing Activities		(677,330)
Net Increase in Cash and Cash Equivalents		209,309
Cash and Cash Equivalents, Beginning of Year		495,825
Cash and Cash Equivalents, End of Year	$	705,134

FLORIDA GULF COAST UNIVERSITY
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)

For the Fiscal Year Ended June 30, 2018

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (113,344,636)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	16,453,747
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	(1,305,612)
Accounts Payable	2,133,566
Salaries and Wages Payable	190,440
Deposits Payable	(274,571)
Compensated Absences Payable	932,778
Unearned Revenue	186,454
Other Postemployment Benefits Payable	(3,698,000)
Net Pension Liability	6,594,508
Deferred Outflows of Resources Related to Other Postemployment Benefits	(75,363)
Deferred Inflows of Resources Related to Other Postemployment Benefits	7,595,939
Deferred Outflows of Resources Related to Pensions	(3,873,180)
Deferred Inflows of Resources Related to Pensions	2,200,269
NET CASH USED BY OPERATING ACTIVITIES	$ (86,283,661)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES	
Unrealized losses on investments were recognized as a reduction to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ (484,895)
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.	$ (55,565)
Donation of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ 4,084,946

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

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

Blended Component Unit. Although it is legally separate from the University, the Florida Gulf Coast University Financing Corporation (Corporation) is included within the University's reporting entity as a blended component unit. The Corporation was incorporated on April 11, 2003, as a not-for-profit Florida corporation under the provisions of Chapter 617, Florida Statutes, and is a direct-support organization of the University. The Corporation was created to receive, hold, invest, and administer property and to make expenses for the exclusive benefit of the University. Due to the substantial economic relationship between the Corporation and the University, the financial activities of the Corporation are included in the University's financial statements. An annual audit of the Corporation is conducted by independent certified public accountants and is submitted to the Auditor General and the University Board of Trustees. Additional information on the Corporation, including copies of audit reports, is available by contacting the University Controller's office. Condensed financial statements for the Corporation are shown in a subsequent note. The condensed financial statements are reported net of eliminations.

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the Florida Gulf Coast University Foundation, Inc. (Foundation), as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011, is included within the University reporting entity as a discretely presented component unit. The Foundation was incorporated on April 19, 1993, as a not-for-profit Florida corporation under the provisions of Chapter 617, Florida Statutes. The Foundation is a legally separate direct-support organization of the University and is governed by a separate board. Its purpose is to encourage, solicit, collect, receive, and administer gifts and bequests of property and funds for scientific, educational, and charitable purposes, all for the advancement of the University and its objectives.

An annual audit of the Foundation's financial statements is conducted by independent certified public accountants. Additional information on the Foundation, including copies of audit reports, is available by contacting the University Controller's Office.

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

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

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

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

Significant interdepartmental sales between auxiliary service departments and other institutional departments have been eliminated from revenues and expenses for reporting purposes.

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

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

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

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

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand and cash in demand accounts. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. 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.

The amount reported as restricted cash and cash equivalents for the University at June 30, 2018, includes at fair value $390,666 of Corporation moneys of which $370,716 was held by the lender and owner of the 2005B Loan as a debt service reserve requirement. The remaining balance of $19,950 was held by the trustee of the Series 2017A Bonds and will be used towards interest due on the next semiannual payment.

Cash and Cash Equivalents – Component Unit. The amount reported as cash and cash equivalents for the Foundation (discretely presented component unit) at June 30, 2018, includes $14,049,260 of bank deposits of which $943,465 is insured by the Federal deposit insurance with the remainder of $13,105,795 collateralized under the Florida Public Deposits Program. The Foundation also had cash held on deposit with investment managers at June 30, 2018, totaling $1,047,974, of which $493,147 was covered by the Securities Investor Protection Corporation.

Cash and cash equivalents reported for the Foundation at June 30, 2018, also includes at fair value $5,761,883 of Foundation moneys held in the State Treasury Special Purpose Investment Account

(SPIA) investment pool representing ownership of a share of the pool, not the underlying securities. The State Treasury SPIA investment pool carried a credit rating of A+f by Standard & Poor's, had an effective duration of 3 years, and fair value factor of 0.9872 at June 30, 2018. The Foundation relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

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

- Buildings – 35 to 50 years
- Infrastructure and Other Improvements – 10 to 50 years
- Furniture and Equipment:
  - Equipment (Other than Moveable) – 10 to 25 years
  - Computer Equipment – 3 to 6 years
  - Moveable Equipment – 5 to 20 years
- Library Resources – 10 years
- Property Under Capital Leases – 10 years
- Works of Art and Historical Treasures – 20 years
- Computer Software and Other Capital Assets – 4 to 10 years

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

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

2. Reporting Change

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

3. Adjustments to Beginning Net Position

The beginning net position of the University was decreased by $38,794,364 due to implementation of GASB Statement No. 75. The University's total OPEB liability reported at June 30, 2017, increased by $39,284,000 to $68,876,000 as of July 1, 2017, due to the transition in the valuation methods under GASB Statement No. 45 to GASB Statement No. 75. The adjustment to beginning net position includes $489,636 for the establishment of beginning deferred outflows of resources.

The Foundation net position for the 2016-17 fiscal year was restated for the implementation of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, and to correct the value of land held for investment.

The following is a summary of adjustments to the beginning net position of the discretely presented component unit reported in the statement of revenues, expenses, and changes in net position:

Description	Component Unit
To Decrease Beginning Net Position Balance Due to Implementation of GASB Statement No. 81.	$ (856,864)
To Increase Beginning Net Position Balance for Correction of value for land held for Investment.	725,553
Total	$ (131,311)

4. Deficit Net Position in Individual Funds

The University reported an unrestricted net position which included a deficit in the current funds – unrestricted as shown below. This deficit can be attributed to the full recognition of long-term liabilities (i.e., compensated absences payable, OPEB payable, and net pension liabilities) in the current unrestricted funds.

Fund		Net Position
Current Funds - Unrestricted	$	(64,800,350)
Auxiliary Funds		8,747,429
Total University Net Posiiton		(56,052,921)
Blended Component Unit		
Unrestricted Net Position		13,254,308
Total	$	(42,798,613)

5. Investments

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA) and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The Board of Trustees has not adopted a written investment policy. As such, pursuant to Section 218.415(17), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. Of the reported investments, $4 million is restricted by the covenants of the bond reimbursement agreements for the Capital Improvement Revenue Bonds Series 2008A and 2009A and $7,760,112 for debt service reserve accounts for the Series 2005A loan, Series 2010A, 2010B, 2011A, and 2013A bonds.

Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

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

External Investment Pools. The University reported investments at fair value totaling $98,097,220 at June 30, 2018, in the State Treasury Special SPIA investment pool, representing ownership of a share of the pool, not the underlying securities (Level 3 inputs). Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. The State Treasury SPIA investment pool carried a credit rating of A+f by Standard & Poor’s, had an effective duration of 3 years and fair value factor of 0.9872 at June 30, 2018. Participants contribute to the State Treasury SPIA investment pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool’s total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments. The Foundation's recurring fair value measurements as of June 30, 2018 are valued using quoted market prices (Level 1 inputs). Investments held by the Foundation at June 30, 2018, are reported at fair value as follows:

		Fair Value Measurements Using		
Investments by fair value level	**Amount**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
United State Treasury Securities	$ 1,085,175	$ -	$ 1,085,175	$ -
Obligations of the United State Government Agencies and Instrumentalities	2,890,969	-	2,890,969	-
Bonds and Notes	12,457,990	-	12,457,990	-
Land Held for Investment or Resale	470,471	-	16,186	454,285
Stocks and Other Equity Securities	261,015	261,015	-	-
Mutual Funds	53,629,246	53,629,246	-	-
Total investments by fair value level	70,794,866	$ 53,890,261	$ 16,450,320	$ 454,285
Investments measured at the net asset value (NAV)				
Collective Investment Funds:				
NT Common US Marketcap Index Fund	24,330,065			
Other Investments:				
Real Assets	239,809			
Surrender Value of Insurance Policy	119,624			
Private Equity	1,469,667			
Total Other Investments	1,829,100			
Total investments measured at the NAV or its equivalent	26,159,165			
Total investments measured at fair value	$ 96,954,031			

Fair Value Measurement: Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified as Level 2 of the fair value hierarchy are valued using quoted prices for similar assets in active markets.

Other information for investments measured at the NAV or its equivalent follows:

Investments measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
NT Common US Marketcap Index Fund	$ 24,330,065	$ -	Daily	1 trade day
Real Assets	239,809	90,000	Not available	NA
Surrender value of insurance policy	119,624	-	Not available	NA
Private Equity	1,469,667	178,450	Not available	NA
Total investments measured at the NAV	$ 26,159,165			

Collective Investment Funds: The primary objective of the Northern Trust U.S. Market Cap Index Fund is to approximate the risk and return characteristics of the Dow Jones U.S. Total Stock Market Index. This Index is commonly used to represent the broad U.S. market.

Real Assets: This investment is in a partnership that invests in a diversified portfolio of private equity and real assets investment funds (underlying funds or private investment funds), which in turn have been established to invest in a broad range of private equity, real estate, energy, and other hard-asset-oriented investments.

Private Equity: The investment within this segment invest in private equity funds in the venture capital, buyout, and capital restructuring sectors.

The Foundation's investment policy allows for investments in equity securities traded on the principal United States Stock Exchanges (NYSE and NASDAQ), and the Foundation only purchases equity securities of companies with a market capitalization of at least $1 billion. For fixed income instruments, the Foundation's policy allows investments in bonds issued by the United States Government, an agency of the United States Government, public traded corporations or their affiliates, taxable municipal bonds, preferred stocks, and real estate investment trusts.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investments that are held by someone other than the component unit and not registered in their names. The Foundation utilizes the services of an investment advisor and several investment managers. All investments, are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Foundation's name. The Foundation's mutual fund investments totaling $53,629,246 at June 30, 2018, are not exposed to custodial credit risk as they are not evidenced by securities that exist in physical or book entry form. There were no losses during the period due to default by counterparties to investment transactions.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy does not limit debt obligation maturities. The Foundation's investments in debt securities at June 30, 2018, are reported at fair value as follows:

Investment Type	Fair Value	Less than 1 Year	1 - 5 Years	5 - 10 Years	Over 10 Years
	Investment Maturities (In Years)				
Obligations of United States Government Agencies and Instrumentalities	$ 2,890,969	$ 301,227	$ 2,589,742	$ -	$ -
Bonds, Notes, and Other Debt Securities	13,543,165	457,938	8,741,495	4,313,968	29,764
Total	$ 16,434,134	$ 759,165	$ 11,331,237	$ 4,313,968	$ 29,764

Credit Risk: Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligation. The Foundation does not have a formal investment policy with respect to credit risk.

At June 30, 2018, the Foundation's investments in debt securities were rated as follows:

Rating	Number	Fair Value	% Bond Holdings
AAA	35	$ 4,902,218	29.83%
AA	25	3,603,096	21.92%
A	63	7,579,145	46.12%
BBB	2	349,675	2.13%
		$ 16,434,134	

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the component unit's investment in a single issuer. At June 30, 2018, the Foundation's investment in its Collective Investment Funds exceeded five percent of total investments.

Other Information: For management control, investments are pooled. Gains, losses, and investment income from the pool are allocated quarterly to the funds that participate in the pool based upon each fund's average quarterly balance.

The Foundation assesses a management fee on all endowment funds for the purpose of funding the Foundation's operating budget. Administrative fees assessed to the endowment funds totaled $1,315,517 or 1.5 percent for the year ending June 30, 2018.

The Endowment Fund account balances (including cash balances) subject to the administrative fee are comprised as follows at June 30, 2018:

Eminent Scholars Program	$ 14,334,507
Major Gifts Program	43,126,133
Other Endowment	33,736,140
	$ 91,196,780

6. Receivables

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

Description	Amount
Contracts and Grants	$ 1,259,545
Student Tuition and Fees	2,421,517
Hurricane Irma Recovery	929,122
Other	149,107
Total Accounts Receivable	$ 4,759,291

Loans Receivable. Loans receivable consist of short-term loans made to students pending the receipts of student financial aid.

Allowance for Doubtful Receivables. Allowances for doubtful accounts, and loans receivable, are reported based on management's best estimate as of fiscal year end considering type, age, collection history, and other factors considered appropriate. Accounts receivable and loans receivable are reported net of allowances of $733,466 and $5,154, respectively, at June 30, 2018.

No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

7. Due From State

The amount due from State consists of $32,416,310 of Public Education Capital Outlay, Capital Improvement Fee Trust Fund, and Lottery funds for construction of University facilities.

8. Capital Assets

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

Description	Beginning Balance	Adjustment (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 51,647,037	$ -	$ -	$ -	$ 51,647,037
Works of Art and Historical Treasures	1,793,358	-	-	-	1,793,358
Construction in Progress	6,091,719	-	5,848,574	8,666,005	3,274,288
Total Nondepreciable Capital Assets	$ 59,532,114	$ -	$ 5,848,574	$ 8,666,005	$ 56,714,683
Depreciable Capital Assets:					
Buildings	$ 528,903,420	$ -	$ 8,106,375	$ -	$ 537,009,795
Infrastructure and Other Improvements	35,473,036	-	3,429,634	-	38,902,670
Furniture and Equipment	47,673,388	-	4,465,093	1,256,575	50,881,906
Library Resources	11,918,616	-	651,815	-	12,570,431
Property Under Capital Leases	14,688	-	633,539	-	648,227
Works of Art and Historical Treasures	693,143	-	-	-	693,143
Computer Software and Other Capital Assets	1,239,729	-	69,606	-	1,309,335
Total Depreciable Capital Assets	625,916,020	-	17,356,062	1,256,575	642,015,507
Less, Accumulated Depreciation:					
Buildings	101,732,261	-	11,186,042	-	112,918,303
Infrastructure and Other Improvements	13,024,435	-	1,489,041	-	14,513,476
Furniture and Equipment	27,799,763	30,305	3,218,951	1,201,010	29,848,009
Library Resources	9,874,065	-	367,864	-	10,241,929
Property Under Capital Leases	1,469	-	107,059	-	108,528
Works of Art and Historical Treasures	177,276	-	34,764	-	212,040
Computer Software and Other Capital Assets	1,039,288	-	50,026	-	1,089,314
Total Accumulated Depreciation	153,648,557	30,305	16,453,747	1,201,010	168,931,599
Total Depreciable Capital Assets, Net	$ 472,267,463	$ (30,305)	$ 902,315	$ 55,565	$ 473,083,908

(1) Adjustment to reflect the amount received as a trade-in on the purchase of new fixed equipment.

9. Unearned Revenue

Unearned revenue at June 30, 2018, consists of grants and contracts received prior to fiscal year end related to subsequent accounting periods.

10. Deferred Outflow / Inflow of Resources

Certain changes in the University's proportionate share of the net pension liabilities of the cost-sharing multiple-employer Florida Retirement System and Health Insurance Subsidy defined benefit plans are reported as deferred outflows and inflows of resources related to pensions. These include changes in actuarial assumptions and other inputs used to measure the pension liabilities, differences between actual and expected experience in the measurement of the liabilities, the net difference between projected and actual earnings on pension plan investments, as well as changes in the University's proportion of the collective net pension liabilities since the prior measurement date and changes between the University's contributions and its proportionate share of contributions. University contributions to the pension plan subsequent to the measurement date for the collective net pension liabilities are reported as deferred outflows. Total deferred outflows of resources related to pensions were $30,542,914 and deferred inflows of resources related to pensions were $2,560,207 for the fiscal year ended June 30, 2018. Note 12. includes a complete discussion of defined benefit pension plans.

11. Long-Term Liabilities

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

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$ 188,647,029	$ 62,205,554	$ 67,607,411	$ 183,245,172	$ 5,485,000
Loans Payable	10,500,000	-	500,000	10,000,000	400,000
Capital Leases Payable	9,973	633,539	151,954	491,558	160,567
Compensated Absences Payable	11,587,264	1,815,030	882,252	12,520,042	983,359
Other Postemployment Benefits Payable (1)	68,876,000	5,451,072	9,149,072	65,178,000	536,000
Net Pension Liability	50,245,131	35,824,449	29,229,941	56,839,639	404,076
Total Long-Term Liabilities	$ 329,865,397	$ 105,929,644	$ 107,520,630	$ 328,274,411	$ 7,969,002

(1) The beginning balance of the Other Postemployment Benefits payable is adjusted for the adoption of GASB Statement No. 75, as described in Notes 2. and 3.

Capital Improvement Revenue Bonds Payable. Capital Improvement Revenue Bonds were issued to construct University facilities, including parking garages and student housing facilities. Capital Improvement Revenue Bonds outstanding, which include both term and serial bonds, are secured by a pledge of housing rental revenues, traffic and parking fees, and an assessed transportation fee based on credit hours.

In prior years, the Corporation issued Capital Improvement Revenue Bonds, Series 2003, 2005A, 2007A, 2008A, 2010A, 2010B, 2011A, and 2013A to construct or purchase student housing facilities, and 2005B, 2007C, and 2009A to construct student parking garages.

On July 1, 2013, the Corporation entered into loan agreements authorizing the refunding of Capital Improvement Revenue Bonds, Series 2005A (Student Residences Phase VII) and Capital Improvement Revenue Bonds, Series 2005B (Student Parking Phase I) which resulted in defeasance of the variable rate capital improvement revenue bond debt and securing fixed rate loans. Accordingly, the Capital Improvement Revenue Bonds, Series 2005A and 2005B are no longer reported as a bond payable on the face of the statement of net position for the reporting period ended June 30, 2018, and the new fixed rate tax exempt loan is reported as loans payable.

The University has entered into a Master Ground and Operating Lease Agreement with the Corporation. The University leases land to the Corporation for a rental fee of $1 per year. The land covered by the ground lease together with the improvements thereon is leased back to the University to manage and operate. The master lease will terminate on the date on which the revenue bonds and any related obligations are paid in full. Revenue from the student residence facilities and parking facilities is pledged to pay rent to the Corporation or its assignees equal to the debt service on the revenue bonds. During the 2017-18 fiscal year, parking facilities rental and fee income, and student residence rental income totaled $3,646,182, and $29,128,122, respectively.

The University had the following capital improvement revenue bonds payable outstanding at June 30, 2018:

Capital Improvement Revenue Bonds Type and Series	**Amount of Original Debt**	**Amount Outstanding (1)**	**Interest Rates (Percent)**	**Maturity Date To**
Capital Improvement Revenue Bonds:				
2008A Student Residences (Phase IX)	$ 22,000,000	$ 17,660,000	1.51 (2)	2038
2009A Student Parking (Phase III)	8,000,000	6,510,000	1.55 (2)	2039
2010A Student Housing (Phase X)	32,000,000	27,238,989	3.50 to 5.50	2040
2010B Student Housing (Phase XI)	17,000,000	14,470,517	3.50 to 5.00	2040
2011A Student Housing (Phase XII)	30,000,000	26,937,538	4.00 to 5.50	2041
2013A Student Housing (Phase XIII)	30,000,000	28,786,485	2.25 to 5.00	2043
2017A Student Housing Project	47,500,000	53,755,210	3.375 to 5.00	2037
2017B Student Parking Project	7,850,000	7,886,433	3.25 to 5.00	2037
Total Capital Improvement Revenue Bonds	$ 194,350,000	$ 183,245,172		

(1) Amount outstanding includes unamortized discounts and premiums.

(2) Variable interest rate at June 30, 2018.

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

Fiscal Year Ending June 30	**Principal**	**Interest**	**Total**
2019	$ 5,485,000	$ 7,863,944	$ 13,348,944
2020	5,695,000	7,644,323	13,339,323
2021	5,935,000	7,399,669	13,334,669
2022	6,190,000	7,151,409	13,341,409
2023	6,470,000	6,877,124	13,347,124
2024-2028	36,970,000	29,855,720	66,825,720
2029-2033	46,435,000	20,380,374	66,815,374
2034-2038	43,070,000	10,243,975	53,313,975
2039-2043	19,655,000	2,280,870	21,935,870
Subtotal	175,905,000	99,697,408	275,602,408
Net Discounts and Premiums	7,340,172	-	7,340,172
Total	$ 183,245,172	$ 99,697,408	$ 282,942,580

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

On November 29, 2017, the Financing Corporation issued $47,500,000 of Capital Improvement Refunding Housing Revenue Bonds, Series 2017A, with an original issue premium of $6,456,991, and interest rates ranging from 3.375 percent to 5 percent. The proceeds of the sale of the Series 2017A Bonds were used to refund the outstanding Capital Improvement Revenue Bonds, Series 2003 principal totaling $33,870,000, and Series 2007A principal totaling $20,200,000, and related issuance costs. As a result of the refunding, the University reduced its capital improvement debt service requirement by $11,614,278 over the next 20 years and obtained an economic gain of $7,670,123.

On November 29, 2017, the Financing Corporation issued $7,850,000 of Capital Improvement Refunding Parking Revenue Bonds, Series 2017B, with an original issue premium of $398,563, and interest rates ranging from 3 percent to 5 percent. The proceeds of the sale of the Series 2017B Bonds were used to refund the outstanding Capital Improvement Revenue Bonds, Series 2007C principal totaling $8,060,000, and related issuance costs. As a result of the refunding, the University reduced its capital improvement debt service requirement by $995,611 over the next 20 years and obtained an economic gain of $765,040.

Loans Payable. On July 1, 2013, the Corporation entered into Loan Agreement (2005A), dated July 1, 2013, in the amount of $6,800,000, and a Loan Agreement (2005B), dated July 1, 2013, in the amount of $5,100,000, collectively hereafter referred to as the Loan, authorizing the refunding of Capital Improvement Revenue Bonds, Series 2005A (Student Residence Phase VII), and Capital Improvement Revenue Bonds, Series 2005B (Student Parking Phase I), which resulted in defeasance of the variable rate capital improvement revenue bond debt and securing fixed rate tax-exempt loans. The proceeds from the fixed rate tax-exempt loans were used to refund the outstanding principal debt of Capital Improvement Revenue Bonds, Series 2005A, in the par amount of $6,800,000, and Capital Improvement Revenue Bonds, Series 2005B, in the par amount of $5,100,000. Accordingly, the Capital Improvement Revenue Bonds, Series 2005A, and Series 2005B, are no longer reported as a bond payable on the face of the statement of net position for the reporting period ended June 30, 2018, and the new fixed rate tax-exempt loan is reported as loans payable. The maturity dates or principal payment schedules were not modified, and there was no economic gain or loss from the advanced refunding of the bond debt.

The annual requirements to amortize the outstanding loans as of June 30, 2018, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2019	$ 400,000	$ 317,214	$ 717,214
2020	400,000	304,525	704,525
2021	500,000	291,837	791,837
2022	500,000	275,976	775,976
2023	500,000	260,115	760,115
2024-2028	2,700,000	1,059,495	3,759,495
2029-2033	3,500,000	570,985	4,070,985
2034-2036	1,500,000	72,959	1,572,959
Total	$ 10,000,000	$ 3,153,106	$ 13,153,106

Loans Payable – Component Unit. On July 27, 2007, the Foundation secured a $3,000,000 5-year loan from Northern Trust Bank at a fixed rate of 4.28 percent to purchase the Marine Science and Environmental Education Center property. On December 15, 2012, the Foundation entered into a 5-year variable interest rate loan which includes an annual principal payment of $150,000. In October 2017, the Foundation used unrestricted cash to repay the $2,250,000 loan balance.

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Loan Payable	$ 2,250,000	$ -	$ 2,250,000	$ -	$ -

Capital Leases Payable. Athletic field aeration equipment in the amount of $14,688 was acquired under a capital lease agreement in June 2016. The stated interest rate is 4.5 percent. Copier equipment in the amount of $633,539 was acquired under a capital lease agreement in July 2017. The stated interest rate is 4.25 percent. Principal and interest requirements on the capital leases outstanding as of June 30, 2018, are presented in the following table:

Fiscal Year Ending June 30	Amount
2019	$ 178,361
2020	173,140
2021	172,685
Total Minimum Payments	524,186
Less, Amount Representing Interest	32,628
Present Value of Minimum Payments	$ 491,558

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors' Regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2018, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled $12,520,042. The current portion of the compensated absences liability, $983,359, is the amount expected to be paid in the coming fiscal year and represents a historical percentage of leave used applied to total accrued leave liability.

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

General Information about the OPEB Plan

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

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

Proportionate Share of the Total OPEB Liability

The University's proportionate share of the total OPEB liability of $65,178,000 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date. At June 30, 2017, the University's proportionate share, determined by its proportion of total benefit payments made, was 0.60 percent, which was an increase of 0.02 from its proportionate share measured as of June 30, 2016.

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

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

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

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

The demographic actuarial assumptions for retirement, disability incidence, and withdrawal used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010, through December 31, 2014, adopted by the FRS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017, valuation were based on a review of recent plan experience done concurrently with the June 30, 2018, valuation.

The following changes have been made since the prior valuation:

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

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

	1% Decrease (2.58%)	**Current Discount Rate (3.58%)**	**1% Increase (4.58%)**
University's proportionate share of the total OPEB liability	$81,419,000	$65,178,000	$52,790,000

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

	1% Decrease	**Healthcare Cost Trend Rates**	**1% Increase**
University's proportionate share of the total OPEB liability	$51,624,000	$65,178,000	$83,550,000

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

For the fiscal year ended June 30, 2018, the University recognized OPEB expense of $3,822,575. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions or other inputs	$ -	$ 9,168,396
Changes in proportion and differences between University benefit payments and proportionate share of benefit payments	-	(1,572,457)
Transactions subsequent to the measurement date	565,000	-
Total	$ 565,000	$ 7,595,939

Of the total amount reported as deferred outflows of resources related to OPEB, $565,000 resulting from transactions (e.g., benefit payments) subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the total OPEB liability and included in OPEB expense in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ (1,033,765)
2020	(1,033,765)
2021	(1,033,765)
2022	(1,033,765)
2023	(1,033,765)
Thereafter	(2,427,114)
Total	$ (7,595,939)

Net Pension Liability. As a participating employer in the FRS, the University recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2018, the University's proportionate share of the net pension liabilities totaled $56,839,639. Note 12. includes a complete discussion of defined benefit pension plans.

12. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS).

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the

Senior Management Service Class employed by the State and faculty and specified employees in the State university system. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance.

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

The University's FRS and HIS pension expense totaled $9,843,850 for the fiscal year ended June 30, 2018.

<u>FRS Pension Plan</u>

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

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

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

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

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

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

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

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

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

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

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

The University's contributions to the Plan totaled $4,203,580 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the University reported a liability of $42,470,770 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The University's proportionate share of the net pension liability was based on the University's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the University's proportionate share was 0.143582601 percent, which was an increase of 0.005339925 from its proportionate share measured as of June 30, 2016.

For the year ended June 30, 2018, the University recognized pension expense of $8,441,531. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,897,794	$ 235,266
Change of assumptions	14,273,177	-
Net difference between projected and actual earnings on FRS Plan investments	-	1,052,532
Changes in proportion and differences between University contributions and proportionate share of contributions	4,055,157	-
University FRS contributions subsequent to the measurement date	4,203,580	-
Total	$ 26,429,708	$ 1,287,798

The deferred outflows of resources totaling $4,203,580, resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30		Amount
2019	$	3,571,442
2020		7,224,997
2021		4,896,456
2022		1,145,400
2023		2,988,424
Thereafter		1,111,611
Total	$	20,938,330

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

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

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

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

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

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

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

Discount Rate. The discount rate used to measure the total pension liability was 7.10 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The discount rate used in the 2017 valuation was updated from 7.60 percent to 7.10 percent.

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

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
University's proportionate share of the net pension liability	$76,869,528	$42,470,770	$13,911,919

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

Payables to the Pension Plan. At June 30, 2018, the University reported a payable of $248,618 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2018.

<u>HIS Pension Plan</u>

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

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

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

The University's contributions to the HIS Plan totaled $718,674 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the University reported a liability of $14,368,869 for its proportionate share of the net pension liability. The current portion of the net pension liability is the University's proportionate share of benefit payments expected to be paid within 1 year, net of the University's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, and update procedures were used to determine liabilities as of July 1, 2017. The University's proportionate share of the net pension liability was based on the University's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the University's proportionate share was 0.134383174 percent, which was an increase of 0.002771917 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the University recognized pension expense of $1,402,319. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	$ 2,019,769	$ 1,242,491
Difference between expected and actual experience		29,918
Net difference between projected and actual earnings on HIS Plan investments	7,969	-
Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions	1,366,794	-
University HIS contributions subsequent to the measurement date	718,674	-
Total	$ 4,113,206	$ 1,272,409

The deferred outflows of resources totaling $718,674, resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ 544,870
2020	543,362
2021	542,639
2022	422,334
2023	200,796
Thereafter	(131,878)
Total	$ 2,122,123

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

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

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

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

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

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

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
University's proportionate share of the net pension liability	$16,396,782	$14,368,869	$12,679,729

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

Payables to the Pension Plan. At June 30, 2018, the University reported a payable of $49,582 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2018.

13. Retirement Plans – Defined Contribution Pension Plans

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2017-18 fiscal year were as follows:

Class	**Percent of Gross Compensation**
FRS, Regular	6.30
FRS, Senior Management Service	7.67
FRS, Special Risk Regular	14.00

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

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

The University's Investment Plan pension expense totaled $867,188 for the fiscal year ended June 30, 2018.

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes 5.14 percent of the participant's salary to the participant's account, 3.3 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover administrative costs, for a total of 8.45 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The University's contributions to the Program totaled $4,107,641, and employee contributions totaled $2,517,645 for the 2017-18 fiscal year.

14. Construction Commitments

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

Project Description	Total Commitment	Completed to Date	Balance Committed
South Village Student Recreation Center	$ 8,960,783	$ 1,149,885	$ 7,810,898
South Access Road	4,004,631	829,505	3,175,126
Integrated Watershed/Coastal Studies Building	16,554,500	72,160	16,482,340
WGCU Transmission Tower Replacement	3,590,095	17,250	3,572,845
Central Energy Plant Power Expansion	1,891,967	55,145	1,836,822
Community Counseling Center	8,000,000	7,796	7,992,204
Subtotal	43,001,976	2,131,741	40,870,235
Project Balances Under $1 Million	3,017,700	1,142,547	1,875,153
Total	$ 46,019,676	$ 3,274,288	$ 42,745,388

15. Risk Management Programs

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2017-18 fiscal year, for property losses, the State retained the first $2 million per occurrence for all perils except named windstorm and flood. The State retained the first $2 million per occurrence with an annual aggregate retention of $40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of $2 million per occurrence were commercially insured up to $92.5 million for named windstorm and flood through February 14, 2018, and decreased to $78 million starting February 15, 2018. For perils other than named windstorm and flood, losses in excess of $2 million per occurrence were commercially insured up to $225 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to $200,000 per person and $300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past 3 fiscal years.

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

16. Functional Distribution of Operating Expenses

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

Functional Classification	Amount
Instruction	$ 74,281,354
Research	2,399,014
Public Services	8,797,849
Academic Support	17,455,337
Student Services	15,372,213
Institutional Support	30,312,940
Operation and Maintenance of Plant	10,068,722
Scholarships, Fellowships, and Waivers	20,944,445
Depreciation	16,453,747
Auxiliary Enterprises	34,301,845
Total Operating Expenses	$ 230,387,466

17. Segment Information

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

Condensed Statement of Net Position

	Housing Facility	Parking Facility
Assets		
Current Assets	$ 18,994,561	$ 4,472,040
Capital Assets, Net	171,108,834	20,083,972
Other Noncurrent Assets	10,786,280	1,372,294
Total Assets	200,889,675	25,928,306
Deferred Outflows of Resources	753,022	151,845
Liabilities		
Current Liabilities	9,171,216	907,217
Noncurrent Liabilities	171,744,917	18,202,439
Total Liabilities	180,916,133	19,109,656
Deferred Inflows of Resources	625,269	11,064
Net Position		
Net Investment in Capital Assets	3,633,347	4,593
Restricted - Expendable	10,791,638	1,370,730
Unrestricted	5,676,310	5,584,108
Total Net Position	$ 20,101,295	$ 6,959,431

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

	Housing Facility	Parking Facility
Operating Revenues	$ 29,128,122	$ 3,646,182
Depreciation Expense	(4,174,407)	(503,902)
Other Operating Expenses	(18,546,564)	(1,844,809)
Operating Income	6,407,151	1,297,471
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	434,015	75,425
Other Nonoperating Expense	(6,701,381)	(558,681)
Net Nonoperating Expenses	(6,267,366)	(483,256)
Increase in Net Position	139,785	814,215
Net Position, Beginning of Year	19,961,510	6,145,216
Net Position, End of Year	$ 20,101,295	$ 6,959,431

Condensed Statement of Cash Flows

	Housing Facility	Parking Facility
Net Cash Provided (Used) by:		
Operating Activities	$ 11,044,967	$ 1,887,448
Noncapital Financing Activities	(4,408,976)	(483,301)
Capital and Related Financing Activities	(5,566,923)	(653,033)
Investing Activities	(1,049,132)	(751,041)
Net Increase in Cash and Cash Equivalents	19,936	73
Cash and Cash Equivalents, Beginning of Year	-	370,657
Cash and Cash Equivalents, End of Year	$ 19,936	$ 370,730

18. Blended Component Unit

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

Condensed Statement of Net Position

	FGCU Financing Corporation	University	Eliminations	Total Primary Government
Assets:				
Current Assets	$ 23,005,495	$ 101,085,058	$ (408,122)	$ 123,682,431
Capital Assets, Net	-	529,798,591	-	529,798,591
Other Noncurrent Assets	199,713,440	146,873	(187,552,822)	12,307,491
Total Assets	222,718,935	631,030,522	(187,960,944)	665,788,513
Deferred Outflows of Resources	-	31,107,914	-	31,107,914
Liabilities:				
Current Liabilities	9,487,973	15,637,087	(408,122)	24,716,938
Noncurrent Liabilities	187,360,172	320,305,409	(187,360,172)	320,305,409
Total Liabilities	196,848,145	335,942,496	(187,768,294)	345,022,347
Deferred Inflows of Resources	454,114	10,156,145	(192,650)	10,417,609
Net Position:				
Net Investment in Capital Assets	-	335,800,398	-	335,800,398
Restricted - Expendable	12,162,368	36,292,318	-	48,454,686
Unrestricted	13,254,308	(56,052,921)	-	(42,798,613)
Total Net Position	$ 25,416,676	$ 316,039,795	$ -	$ 341,456,471

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

	FGCU Financing Corporation	University	Eliminations	Total Primary Government
Operating Revenues	$ 18,622,396	$ 98,420,434	$ -	$ 117,042,830
Depreciation Expense	-	(16,453,747)	-	(16,453,747)
Other Operating Expenses	(14,457,672)	(207,418,558)	7,942,511	(213,933,719)
Operating Income (Loss)	4,164,724	(125,451,871)	7,942,511	(113,344,636)
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	509,440	111,966,860	-	112,476,300
Interest Expense	-	(30,043)	(7,942,511)	(7,972,554)
Other Nonoperating Revenue (Expense)	(4,438,117)	2,544,495	-	(1,893,622)
Net Nonoperating Revenues (Expenses)	(3,928,677)	114,481,312	(7,942,511)	102,610,124
Other Revenues	-	23,119,078	-	23,119,078
Increase in Net Position	236,047	12,148,519	-	12,384,566
Net Position, Beginning of Year	25,180,629	342,685,640	-	367,866,269
Adjustment to Beginning Net Position (1)	-	(38,794,364)	-	(38,794,364)
Net Position, Beginning of Year, as Restated	25,180,629	303,891,276	-	329,071,905
Net Position, End of Year	$ 25,416,676	$ 316,039,795	$ -	$ 341,456,471

(1) Adjustment to beginning net position is due to the implementation of GASB Statement No. 75, which is a change in accounting principle that addresses accounting and financial reporting for other postemployment benefits.

Condensed Statement of Cash Flows

	FGCU Financing Corporation	University	Eliminations	Total Primary Government
Net Cash Provided (Used) by:				
Operating Activities	$ 10,110,470	$ (86,646,486)	$ (9,747,645)	$ (86,283,661)
Noncapital Financing Activities	(2,070,332)	93,326,605	18,622,396	109,878,669
Capital and Related Financing Activities	(6,219,956)	(7,613,662)	(8,874,751)	(22,708,369)
Investing Activities	(1,800,173)	1,122,843	-	(677,330)
Net Increase in Cash and Cash Equivalents	20,009	189,300	-	209,309
Cash and Cash Equivalents, Beginning of Year	420,657	75,168	-	495,825
Cash and Cash Equivalents, End of Year	$ 440,666	$ 264,468	$ -	$ 705,134

19. Related Party Transactions

University and Blended Component Unit.

As part of a Master Ground and Operating Lease Agreement (see Note 11.), the University operates and pays all operating costs of the facilities leased from the Corporation from the gross rental income from the respective student residences and parking facilities. The net rental income is then paid to the Corporation by the University in arrears based on collections. The University provides office space and related occupancy costs, such as, utilities and use of other office machines as well as accounting and record keeping services at no cost to the Corporation.

Discretely Presented Component Unit.

The Foundation maintains a portion of its investments and repaid a prior year outstanding loan with a financial institution of which a Foundation board member was an officer during the fiscal year ended June 30, 2018. The Foundation investments managed by the financial institution at June 30, 2018, totaled $24,431,131. The Foundation had one outstanding loan totaling $2,550,000 with the financial institution at June 30, 2017. In October 2017, the Foundation used unrestricted cash to pay the loan balance and paid $19,971 in interest during the fiscal year ended June 30, 2018.

The Foundation maintains a portion of its fixed income investments with an investment firm of which a Foundation board member was an officer during the fiscal year ended June 30, 2018. The Foundation investments managed by the investment firm at June 30, 2018, totaled $12,950,412.

The Foundation's operating bank account was with a financial institution that a Foundation board member was an officer of during the fiscal year ending June 30, 2018. On June 30, 2018, the Foundation had $12,595,242 on deposit with this financial institution.

On July 17, 2013, the University renewed the lease agreement with the Foundation for the use of waterfront property for the University's Vester Marine Science and Environmental Education Center. The monthly lease payment of $32,000 covers the general operating and maintenance expenses incurred by the Foundation.

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

	2017
University's proportion of the total other postemployment benefits liability	0.60%
University's proportionate share of the total other postemployment benefits liability	$ 65,178,000
University's covered-employee payroll	$ 91,940,732
University's proportionate share of the total other postemployment benefits liability as a percentage of its covered-employee payroll	70.89%

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

	2017 (1)	**2016** (1)	**2015** (1)	**2014** (1)	**2013** (1)
University's proportion of the FRS net pension liability	0.143582601%	0.138242676%	0.134955671%	0.120557144%	0.090929688%
University's proportionate share of the FRS net pension liability	$ 42,470,770	$ 34,906,384	$ 17,431,335	$ 7,355,759	$ 15,653,046
University's covered payroll (2)	$ 87,654,579	$ 83,326,076	$ 78,759,256	$ 71,749,253	$ 67,297,169
University's proportionate share of the FRS net pension liability as a percentage of its covered payroll	48.45%	41.89%	22.13%	10.25%	23.26%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	83.89%	84.88%	92.00%	96.09%	88.54%

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

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

Schedule of University Contributions – Florida Retirement System Pension Plan

	2018 (1)	**2017** (1)	**2016** (1)	**2015** (1)	**2014** (1)
Contractually required FRS contribution	$ 4,203,580	$ 3,737,809	$ 3,371,268	$ 3,290,334	$ 2,640,713
FRS contributions in relation to the contractually required contribution	(4,203,580)	(3,737,809)	(3,371,268)	(3,290,334)	(2,640,713)
FRS contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
University's covered payroll (2)	$ 90,853,899	$ 87,654,579	$ 83,326,076	$ 78,759,256	$ 71,749,253
FRS contributions as a percentage of covered payroll	4.63%	4.26%	4.05%	4.18%	3.68%

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

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

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

	2017 (1)	**2016** (1)	**2015** (1)	**2014** (1)	**2013** (1)
University's proportion of the HIS net pension liability	0.134383174%	0.131611257%	0.126328980%	0.116328119%	0.109926339%
University's proportionate share of the HIS net pension liability	$ 14,368,869	$ 15,338,747	$ 12,883,569	$ 10,876,963	$ 9,570,533
University's covered payroll (2)	$ 42,170,740	$ 39,725,141	$ 37,462,263	$ 34,108,299	$ 31,706,972
University's proportionate share of the HIS net pension liability as a percentage of its covered payroll	34.07%	38.61%	34.39%	31.89%	30.18%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	1.64%	0.97%	0.50%	0.99%	1.78%

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

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

Schedule of University Contributions – Health Insurance Subsidy Pension Plan

	2018 (1)	**2017** (1)	**2016** (1)	**2015** (1)	**2014** (1)
Contractually required HIS contribution	$ 718,674	$ 711,195	$ 674,592	$ 482,908	$ 398,501
HIS contributions in relation to the contractually required HIS contribution	(718,674)	(711,195)	(674,592)	(482,908)	(398,501)
HIS contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
University's covered payroll (2)	$ 42,242,715	$ 42,170,740	$ 39,725,141	$ 37,462,263	$ 34,108,299
HIS contributions as a percentage of covered payroll	1.70%	1.69%	1.70%	1.29%	1.17%

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

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

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

No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

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

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

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida Gulf Coast University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 26, 2019, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the blended and discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
March 26, 2019