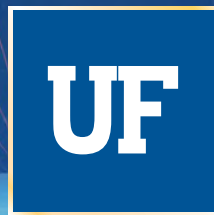


# GO GREATER

UNIVERSITY OF FLORIDA ANNUAL FINANCIAL REPORT | 2016-2017



# UF ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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# UNIVERSITY OF FLORIDA

## FOR THE GATOR GOOD

The University of Florida is a comprehensive learning institution built on a land-grant foundation. We are the Gator Nation, a diverse community dedicated to excellence in education and research and shaping a better future for Florida, the nation, and the world.

### MISSION

The University's mission is to enable students to lead and influence the next generation and beyond for economic, cultural, and societal benefit by striving to offer broad-based, inclusive public education, leading research, and service to the residents of Florida, the nation, and the world. The fusion of these three endeavors stimulates a remarkable intellectual vitality and generates a synthesis that represents the University's greatest strength.

Education is a fundamental purpose of this University at both the graduate and undergraduate levels. Research and scholarship are integral to the education process and to the expansion of our understanding of the natural world, the intellect, and the senses. Service reflects the University's obligation to share the benefits of its research and knowledge for the public good.

These three interlocking elements span all academic disciplines and represent the University's commitment to lead and serve the state of Florida, the nation, and the world by pursuing and disseminating new knowledge while building upon the experiences of the past. The University of Florida aspires to advance by strengthening the human condition and improving the quality of life.

### HISTORY

The University of Florida, the State's oldest university, traces its beginning of rich history to 1853, when the state-funded East Florida Seminary acquired the Kingsbury Academy in Ocala. After the end of the Civil War, the institution relocated to Gainesville, ultimately consolidated with the State's land grant Florida Agricultural College, and was renamed the University of Florida in 1906. At the time, the University was an all-male institution with only 102 students.

Until 1947, the University of Florida was one of only three State universities, along with the Florida State College for Women (now Florida State University) and Florida A&M University. Women attended as early as 1916, and the student body grew to 601 women and 8,177 men when the Legislature removed all barriers for female enrollment in 1947.

Today, the University is one of the largest in the nation, boasting an enrollment of more than 54,000 students. The campus consists of 2,000 acres and more than 900 buildings, including the first Leadership in Energy and Environmental Design (LEED) Platinum-certified building in the state of Florida. The University also has programs and facilities in more than 180 locations around the State and the globe.

### FACULTY

The University faculty, which numbers more than 5,000, has over 48 Eminent Scholar Chairs and more than 40 members that have been elected to the National Academies of Science and/or Engineering, the Institute

of Medicine, or the American Academy of Arts or Sciences. Present and past faculty include Pulitzer Prize winners, a pioneer in aviation engineering, a leading scholar on econometrics, three winners of NASA's top award for research, one of the four charter members of the Solar Hall of Fame, and a winner of the Smithsonian Institution's award for conservation.

From pharmacy and public relations to pain mitigation and materials engineering, the University of Florida is a recognized leader in a wide variety of specialties and areas. University researchers and scientists have made significant developments and discoveries in many fields, including astronomy, microbiology, metallurgy, and medical technology.

## RESEARCH

The University of Florida is a world leader in research, contributing significantly to nearly every field of endeavor. Since 1985, the University of Florida has been a member of the Association of American Universities, which is comprised of 62 leading research universities in the United States and Canada. To date, the University of Florida is the only member university located in Florida.

University researchers have pioneered new therapies and better treatments in the fights against aging and disease. They have developed renewable energy sources that offer great promise in reducing our dependence on fossil fuels, as well as engineered healthier foods, developed more energy-efficient and sustainable construction techniques, and established better ways to protect the environment.

Through the years of research, University of Florida scientists, inventors, engineers, and researchers have

developed products and practices that have been distributed and applied with an international reach, improving the lives of millions of people in Florida and around the world.

## STUDENTS

The University of Florida's freshman retention rate of 96 percent speaks to the outstanding quality of the University's entire academic experience. Fall 2016 figures indicate an enrollment of 54,854 students, with almost 80 percent of whom are from Florida. Almost every state in the nation is represented in the University of Florida student body, and the University is gaining an increasingly international enrollment, with over 6,000 international students representing more than 150 countries.

Sixty-five percent of enrolled students are degree-seeking undergraduates, 23 percent are graduate students and eight percent are in a professional degree program. Four percent are unclassified/non-degree seeking undergraduates.

University of Florida students also receive many opportunities to participate in extracurricular activities. There are more than 1,000 student organizations on campus, and students attend more than 2,000 campus concerts, art exhibits, theatrical productions, guest lectures, sporting events, as well as other events each year.

The University of Florida, which is comprised of 16 colleges, offers more than 100 undergraduate majors and more than 250 graduate programs. The University is among the top 10 publically ranked schools in the U.S. News Best Colleges (2018 ed.) and ranks 3rd in Forbes "Best Value Public Colleges" (2017). The University's consistent ranking among the nation's top universities is a result of the commitment to provide the highest quality education at the best value.



FROM THE

# VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

I am pleased to present the University of Florida's Annual Financial Report for the fiscal year ending on June 30, 2017. This report provides timely, useful information about the University's financial activities, status and well-being in the past fiscal year.

The mission of the Office of the Vice President and Chief Financial Officer is to "provide leadership in financial planning, decision making and process improvement." We are continually seeking ways to provide financial support and guidance to the campus community and collaborate with partners across UF.

Here are some highlights from the year:

- Under the auspices of the Business Process Improvement Office, we provided campus with Bridge Staffing, which processes transactions to ensure business continuity when there is staff turnover or leave; Reporting Services, which helps units more effectively manage their business operations; and Shared Services, which provides human resources expertise, expense transaction processing and financial management support across UF.
- Finance and Accounting began construction on a new Surplus Property Warehouse to expand available space and provide more services to University departments. The warehouse, which will house UF's Surplus Property Operations, is expected to be completed in early 2018.
- The University Budget Office launched a Commitments Ledger during the fourth quarter of the fiscal year. The Ledger is already being used by campus and will, for the first time, provide a centralized report of commitments, such as start-up packages for incoming faculty, capital needs and other future needs of the units across campus. The application will continue to be refined to offer colleges and departments the most effective tool possible.
- The Procurement department earned the 2017 Annual Achievement of Excellence in Procurement Award for the fourth consecutive year and was one of only 25 higher education organizations in the U.S. and Canada to receive the award. The award recognizes organizational excellence in public procurement, taking into account innovation, professionalism, e-procurement, productivity and leadership.



- Representatives from the CFO's Office gave a "best practices" presentation to the NACUBO Planning and Budgeting Forum about modifications to the University's budget model. With input from stakeholders across campus, the modified budget model was designed to simplify the allocation process and increase transparency and predictability at the college level from one year to the next.
- Newell Hall has been renovated and repurposed to create a modern learning commons for our students.

Construction continues on several major projects including Phase II of Innovation Hub, the addition and renovation of the Career Resource Center, a new IFAS Bee Unit Facility, and the Herbert Wertheim Laboratory for Engineering Excellence.

In addition to the business process improvements and efforts noted above, the 2016-2017 fiscal year included the completion of some major construction projects:

- Exactech Arena at the Stephen O'Connell Center has a redesigned entrance and innovative interior, including a premium club lounge, increased courtside seating and a new high-efficiency utility system.
- Joseph Hernandez Hall Chemistry/Chemical Biology Building provides approximately 110,000 square feet of modern teaching laboratories, lecture rooms, and teaching support.

I encourage you to read the following report to learn more about the financial health and activities of the University of Florida – the state of Florida's oldest, largest and most comprehensive flagship university – a place dear to us all and where preeminence thrives.

Most cordially,

Michael V. McKee  
Vice President and Chief Financial Officer



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74  
111 West Madison Street  
Tallahassee, Florida 32399-1450



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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the University of Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2017, 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 aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Florida and of its aggregate discretely presented



component units as of June 30, 2017, 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.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University of Florida's basic financial statements. The University Overview and the Introduction from the Vice President and Chief Financial Officer are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The University Overview and Introduction from the Vice President and Chief Financial Officer have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.


#### *Report on Partial Comparative Information*

We have previously audited the University of Florida's 2015-16 fiscal year financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 8, 2017. In our opinion, the partial comparative information presented as of and for the fiscal year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated February 22, 2018, on our consideration of the University of Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of Florida's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
February 22, 2018  
Audit Report No. 2018-118





# MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

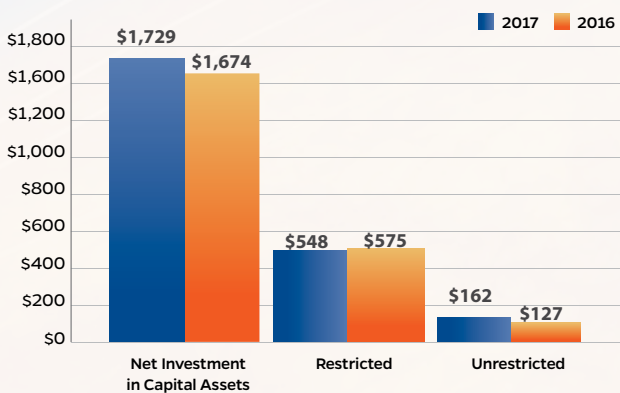
The Management's Discussion and Analysis (MD&A) provides an overview of the financial position and activities of the University of Florida (the University) for the fiscal year ended June 30, 2017, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, 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, 2017, and June 30, 2016.



## Financial Highlights

The University’s assets totaled \$3.7 billion at June 30, 2017. This balance reflects a \$146.6 million, or 4.1%, increase from the 2015-16 fiscal year. The increase in assets resulted primarily from an increase in depreciable capital assets placed in service as well as an increase in total investments. While total assets increased, liabilities also increased by \$259.1 million, or 19.9%, totaling \$1.6 billion at June 30, 2017, primarily as a result of the increase in net pension liability and postemployment benefits payable. The University’s net position increased by \$62.3 million, or 2.6%, resulting in a year-end balance of \$2.4 billion. Net position represents the residual interest in the University’s assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University’s comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, are shown in the following chart:

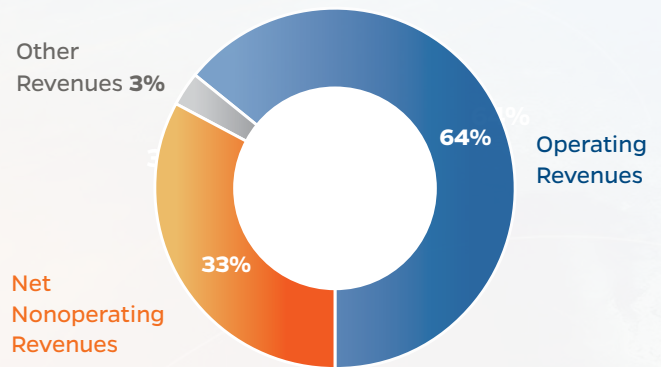
**COMPARATIVE TOTAL NET POSITION** (in millions)



The University’s operating revenues totaled \$1.9 billion for the 2016-17 fiscal year, representing a 4.9% increase over the 2015-16 fiscal year. Major components of operating revenues are Student Tuition and Fees and Grants and Contracts. Student Tuition and Fees, Net of Scholarship Allowances, increased \$20.9 million, or 5.1%. Grants and Contracts revenue increased by \$64.7 million, or 5.3%.

The following chart provides a graphical presentation of the University’s total revenues by category for the 2016-17 fiscal year:

**TOTAL REVENUES 2016-17**



Operating expenses totaled \$2.9 billion for the 2016-17 fiscal year, representing a \$158.8 million, or 5.8%, increase compared to the 2015-16 fiscal year. The largest category contributing to this increase was Employee Compensation and Benefits.

Net nonoperating revenues and expenses in the 2016-17 fiscal year increased \$53.2 million primarily due to an increase in State Noncapital Appropriations, Investment Income, and Net Increase in the Fair Value of Investments.

The University had significant construction activity during the year. Several major construction projects were completed during the year including the Stephen O'Connell Center Renovation and Addition, Chemistry/Chemical Biology Building, and Newell Hall Renovation for a total of \$142.1 million capitalized.

## Overview of Financial Statements

Pursuant to GASB Statement No. 35, the University's financial report includes 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.

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. Net position, the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources, 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 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. GASB Statement No. 35

categorizes revenues and expenses as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

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 the 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 Operating Expenses table and in the notes to the financial statements.

Certain revenue sources that the University relies on to provide funding for operations, including State Noncapital Appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets.

Other Revenues is composed of State Capital Appropriations and Capital Grants, Contracts, and Donations.

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 assists 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 reflect the net cash used by the operating activities of the University. Cash flows from capital and related financing activities include activities of the capital funds and related long-term debt. Cash flows from investing activities reflect the net source and use of cash related to the purchases and sales of investments and income earned on those investments. Cash flows from noncapital financing activities include those activities not covered in the other sections.



**\$3.7 BILLION**  
TOTAL ASSETS



**\$1.9 BILLION**  
TOTAL OPERATING REVENUES



**\$1.3 BILLION**  
GRANTS AND CONTRACTS

The University's basic financial statements include discretely presented component units categorized as follows:

**Direct-Support Organizations** – These are separate, not-for-profit corporations organized and operated exclusively to assist the University in achieving excellence by providing supplemental resources from private gifts, bequests, and valuable education support services.

**Health Science Center Affiliates** – These are the several corporations closely affiliated with the University of Florida J. Hillis Miller Health Science Center, including the Faculty Practice Plans.

**Shands Hospital and Others** – This includes Shands Teaching Hospital and Clinics, Inc., a not-for-profit corporation that is contractually obligated to manage, operate, maintain, and insure the hospital facilities in support of the programs of the Health Science Center at the University of Florida. In addition, this category includes the University of Florida Self-Insurance Program and the University of Florida Healthcare Education Insurance Company.

## Statement of Net Position

The following table 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 (in millions)          |                   |                   |
|--|-------------------|-------------------|
|  | 2017              | 2016              |
| <b>Assets:</b>   |                   |                   |
| Current Assets   | \$ 1,543.1        | \$ 1,441.4        |
| Capital Assets, Net  | 1,892.2           | 1,864.0           |
| Other Noncurrent Assets                                    | 302.5             | 285.8             |
| <b>Total Assets</b>  | <b>3,737.8</b>    | <b>3,591.2</b>    |
| Deferred Outflows of Resources                             | 269.1             | 140.8             |
| <b>Total Assets and Deferred Outflows of Resources</b>     | <b>4,006.9</b>    | <b>3,732.0</b>    |
| <b>Liabilities:</b>  |                   |                   |
| Current Liabilities  | 409.4             | 403.5             |
| Noncurrent Liabilities                                     | 1,151.6           | 898.4             |
| <b>Total Liabilities</b>                                   | <b>1,561.0</b>    | <b>1,301.9</b>    |
| Deferred Inflows of Resources                              | 7.3               | 53.8              |
| <b>Total Liabilities and Deferred Inflows of Resources</b> | <b>1,568.3</b>    | <b>1,355.7</b>    |
| <b>Net Position:</b>                                       |                   |                   |
| Net Investment in Capital Assets                           | 1,729.1           | 1,674.4           |
| Restricted   | 548.1             | 575.4             |
| Unrestricted   | 161.4             | 126.5             |
| <b>Total Net Position</b>                                  | <b>\$ 2,438.6</b> | <b>\$ 2,376.3</b> |

The increase in assets resulted primarily from an increase in depreciable capital assets as well as total investments, which

increased by \$104.4 million and \$82.9 million, respectively. The increase in depreciable capital assets was partially offset by a decrease in construction in progress of \$76.1 million as the Stephen O'Connell Center Renovation and Addition along with the Chemistry/Chemical Biology Building were finished and placed into service in the 2016-17 fiscal year. Investments grew as a result of the University's increase in investment income and the fair value of investments, as driven by market performance. Due From State increased \$33.4 million due to expanded authority from the Department of Education for the NEXUS Engineering Addition and Norman Hall Remodeling projects.

The large increase in noncurrent liabilities is primarily due to an increase of \$211.7 million in the long-term portion of Net Pension Liability. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liabilities of the defined benefit pension plans. The change in the Net Pension Liability is driven by the market performance for the plan assets as of the measurement date for the plan liabilities.

The reported deferred outflows of resources and deferred inflows of resources are also required under GASB Statement No. 68.

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

The following table summarizes the University's activity for the 2016-17 and 2015-16 fiscal years:

| Condensed Statement of Revenues, Expenses, and Changes in Net Position (in millions) |                   |                   |
|--|-------------------|-------------------|
|  | 2016-17           | 2015-16           |
| Operating Revenues   | \$ 1,897.7        | \$ 1,808.3        |
| Operating Expenses   | (2,890.8)         | (2,732.0)         |
| Operating Loss   | (993.1)           | (923.7)           |
| Net Nonoperating Revenues  | 972.5             | 919.3             |
| Loss Before Other Revenues   | (20.6)            | (4.4)             |
| Other Revenues   | 82.9              | 60.7              |
| <b>Increase in Net Position</b>  | <b>62.3</b>       | <b>56.3</b>       |
| <b>Net Position, Beginning of Year</b>   | <b>2,376.3</b>    | <b>2,320.0</b>    |
| <b>Net Position, End of Year</b>   | <b>\$ 2,438.6</b> | <b>\$ 2,376.3</b> |

The University's net position increased by \$62.3 million for the 2016-17 fiscal year.



## Operating Revenues

The following table summarizes the operating revenues by source that were used to fund operating activities during the 2016-17 and 2015-16 fiscal years:

| Operating Revenues (in millions)                           |                   |                   |
|--|-------------------|-------------------|
|  | 2016-17           | 2015-16           |
| Grants and Contracts                                       | \$ 1,275.8        | \$ 1,211.1        |
| Student Tuition and Fees,<br>Net of Scholarship Allowances | 431.7             | 410.8             |
| Sales and Services of<br>Auxiliary Enterprises             | 131.4             | 126.0             |
| Sales and Services of<br>Educational Departments           | 55.3              | 55.6              |
| Other  | 3.5               | 4.8               |
| <b>Total Operating Revenues</b>                            | <b>\$ 1,897.7</b> | <b>\$ 1,808.3</b> |

Increases in operating revenues during the 2016-17 fiscal year resulted from increases in awards of Nongovernmental Grants and Contracts and Federal Grants and Contracts, which increased by \$36.3 million and \$24.9 million, respectively. In addition, Student Tuition and Fees, Net of Scholarship Allowances increased by \$20.9 million due to increased enrollment, particularly for out-of-state residents.

## Operating Expenses

The following table summarizes the operating expenses for each method of classification for the 2016-17 and 2015-16 fiscal years:

### Operating Expenses (in millions)

| Natural Classification                  | 2016-17           | 2015-16           |
|---|-------------------|-------------------|
| Employee Compensation and Benefits      | \$ 2,022.3        | \$ 1,882.7        |
| Services and Supplies                   | 552.2             | 546.0             |
| Depreciation                            | 137.5             | 132.5             |
| Scholarships, Fellowships and Waivers * | 106.9             | 100.2             |
| Utilities and Communications            | 71.9              | 70.6              |
| <b>Total Operating Expenses</b>         | <b>\$ 2,890.8</b> | <b>\$ 2,732.0</b> |
| Functional Classification               | 2016-17           | 2015-16           |
| Instruction                             | \$ 715.5          | \$ 674.9          |
| Public Service                          | 647.9             | 583.5             |
| Research                                | 635.2             | 619.9             |
| Academic Support                        | 204.6             | 187.6             |
| Institutional Support                   | 152.9             | 161.8             |
| Depreciation                            | 137.5             | 132.5             |
| Auxiliary Enterprises                   | 126.6             | 112.0             |
| Operation and Maintenance of Plant      | 121.6             | 120.6             |
| Scholarships, Fellowships and Waivers * | 106.9             | 100.2             |
| Student Services                        | 42.1              | 39.0              |
| <b>Total Operating Expenses</b>         | <b>\$ 2,890.8</b> | <b>\$ 2,732.0</b> |

\* Net of Scholarship Allowances of \$155.8 million in the 2016-17 fiscal year and \$147.1 million in the 2015-16 fiscal year.

Operating expenses increased primarily due to a \$139.6 million increase in Employee Compensation and Benefits which was driven by increases in Pension Expense, an increase in the number of employees working at the University, and increases to pay rates and Fringe Benefit Pool rates for various University personnel.

## Nonoperating Revenues and Expenses

The following table summarizes the University's nonoperating revenues and expenses for the 2016-17 and 2015-16 fiscal years:

| Nonoperating Revenues (Expenses) (in millions)       |                 |                 |
|--|-----------------|-----------------|
|  | 2016-17         | 2015-16         |
| State Noncapital Appropriations                      | \$ 712.1        | \$ 674.1        |
| Federal and State Student Financial Aid              | 117.0           | 115.9           |
| Noncapital Grants, Contracts, and Gifts              | 116.7           | 136.9           |
| Investment Income, Net of Expenses                   | 33.8            | 19.5            |
| Net Increase (Decrease) in Fair Value of Investments | 21.1            | (15.9)          |
| Loss on Disposal of Capital Assets                   | (16.5)          | (2.1)           |
| Interest on Capital Asset-Related Debt               | (7.1)           | (7.6)           |
| Other Net Nonoperating Expenses                      | (4.6)           | (1.5)           |
| <b>Net Nonoperating Revenues</b>                     | <b>\$ 972.5</b> | <b>\$ 919.3</b> |

The increase in Net Nonoperating Revenues of \$53.2 million resulted primarily from an increase in State Noncapital Appropriations, Investment Income, and Net Increase in the Fair Value of Investments. The increase in State Noncapital Appropriations is attributable to additional Public Education Capital Outlay (PECO) funding provided by the State for maintenance and site improvements to University property. The increase in Investment Income and the Net Increase in the Fair Value of Investments are driven by the market performance of the University's investments during the year, as compared to performance during the previous year.

## Other Revenues

The following table summarizes the University's other revenues for the 2016-17 and 2015-16 fiscal years:

| Other Revenues (in millions)             |                |                |
|--|----------------|----------------|
|  | 2016-17        | 2015-16        |
| State Capital Appropriations             | \$ 59.5        | \$ 33.1        |
| Capital Grants, Contracts, and Donations | 23.4           | 27.6           |
| <b>Total Other Revenues</b>              | <b>\$ 82.9</b> | <b>\$ 60.7</b> |

Increased PECO funding for the NEXUS Engineering Addition and the Norman Hall Remodeling resulted in an increase in State Capital Appropriations and, accordingly, Total Other Revenues.

## Statement of Cash Flows

The following table summarizes cash flows for the 2016-17 and 2015-16 fiscal years:

### Condensed Statement of Cash Flows (in millions)

|   | 2016-17       | 2015-16       |
|---|---------------|---------------|
| Cash Provided (Used) by:                                    |               |               |
| Operating Activities  | \$ (741.0)    | \$ (727.1)    |
| Noncapital Financing Activities                             | 935.2         | 914.5         |
| Capital and Related Financing Activities                    | (159.8)       | (138.8)       |
| Investing Activities  | (28.0)        | (50.5)        |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b> | <b>6.4</b>    | <b>(1.9)</b>  |
| <b>Cash and Cash Equivalents, Beginning of Year</b>         | <b>0.4</b>    | <b>2.3</b>    |
| <b>Cash and Cash Equivalents, End of Year</b>               | <b>\$ 6.8</b> | <b>\$ 0.4</b> |

Major sources of funds came from Grants and Contracts (\$1,277.0 million), State Noncapital Appropriations (\$712.1 million), Student Tuition and Fees, Net (\$432.5 million), Sales and Services of Auxiliary Enterprises (\$130.4 million), and Federal and State Financial Aid (\$117.0 million). Major uses of funds were for Payments to Employees (\$1,929.3 million), Payments to Suppliers for Goods and Services (\$612.1 million), and the Purchase or Construction of Capital Assets (\$179.2 million).

## Capital Assets, Capital Expenses and Commitments, and Debt Administration

### CAPITAL ASSETS

At June 30, 2017, the University had approximately \$4.0 billion in capital assets, less accumulated depreciation of \$2.1 billion, for net capital assets of \$1.9 billion. Depreciation charges for the current fiscal year totaled \$137.5 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

### Total Capital Assets, Net (in millions)

|   | 2017              | 2016              |
|---|-------------------|-------------------|
| Land  | \$ 12.5           | \$ 12.5           |
| Buildings   | 1,515.9           | 1,412.8           |
| Infrastructure and Other Improvements                             | 48.3              | 49.9              |
| Furniture and Equipment   | 194.6             | 192.8             |
| Library Resources   | 47.9              | 50.1              |
| Property Under Capital Lease and Leasehold Improvements           | 14.8              | 11.4              |
| Other Capital Assets  | 4.8               | 5.0               |
| Construction in Progress  | 53.4              | 129.5             |
| <b>Total Capital Assets (Nondepreciable and Depreciable, Net)</b> | <b>\$ 1,892.2</b> | <b>\$ 1,864.0</b> |

Additional information about the University's capital assets is presented in Note 7 to the financial statements.

Total Capital Assets increased in the 2016-17 fiscal year as the Stephen O'Connell Center Renovation and Addition, Chemistry/





Chemical Biology Building, and Newall Hall Renovation were all completed and placed in service during the year. These additions are reflected in the increased basis in Buildings and the decrease in Construction in Progress.

### CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses on the University's largest ongoing projects include NEXUS Engineering Addition and Innovation Hub, Phase II for \$2.0 million and \$7.9 million, respectively.

The University's construction commitments at June 30, 2017, are as follows:

| Construction Commitments (in millions) |                 |
|--|-----------------|
| Total Commitments                      | \$ 222.6        |
| Completed to Date                      | 53.4            |
| <b>Balance Committed</b>               | <b>\$ 169.2</b> |

*Additional information about the University's construction commitments is presented in Note 14 to the financial statements.*

### DEBT ADMINISTRATION

At June 30, 2017, the University had \$163.1 million in outstanding capital asset-related debt, representing a decrease of \$12.8 million, or 7.3%, from the prior fiscal year. The following table summarizes the outstanding capital asset-related debt by type of debt at June 30:

|   | Capital Asset-Related Debt (in millions) |                 |
|---|--|-----------------|
|   | 2017                                     | 2016            |
| Capital Improvement Debt                | \$ 147.4                                 | \$ 158.1        |
| Loans and Notes                         | 10.1                                     | 10.7            |
| Installment Purchase Agreements         | 3.1                                      | 4.4             |
| Capital Leases                          | 2.5                                      | 2.7             |
| <b>Total Capital Asset-Related Debt</b> | <b>\$ 163.1</b>                          | <b>\$ 175.9</b> |

*Additional information about the University's capital asset-related debt is presented in Note 11 to the financial statements.*

## Economic Factors That Will Affect the Future

The University's economic condition is closely tied to that of the state of Florida. The forecast suggests overall stability for the Florida economy, with modest yet uneven growth in all of the key economic indicators – personal income, employment, housing starts, light vehicle registrations, and tourism. With job growth and increased reasons for optimism in the labor market, the State's unemployment rate continues to improve. The State's unemployment rate in July 2017 was lower than the nation as a whole at 4.1%. Housing starts, light vehicle registrations, and tourism are all on an upward growth trend and the forecast expects this trend to continue.

The modest economic conditions are reflected in the University's \$58.0 million increase in State Appropriations for the coming fiscal year. The State budget for the 2017-18 fiscal year includes, for the University, \$7.4 million in additional performance funding allocation, and \$17.3 million in additional funding for the preeminence initiative enabling the University to hire new faculty. Furthermore, the budget includes \$13.3 million in funding for the State's newly established World Class Faculty Scholar Program and \$13.9 million in funding for the State's newly established University Professional and Graduate Degree Excellence Program.

The 2017-18 fiscal year budget reflects the sustained commitment of the Legislature and the Governor to support the University of Florida after becoming one of the nation's top ten public research universities.

## Requests for Information

Questions concerning information provided in the MD&A, financial statements and notes thereto, and other required supplementary information, or requests for additional financial information should be addressed to Alan M. West, Assistant Vice President and University Controller, P.O. Box 113200, Gainesville, Florida 32611.

# Statement of Net Position

As of June 30, 2017 (amounts expressed in thousands)

|   | University of Florida |                     | Component Units              |                                  |                            |
|---|-----------------------|---------------------|------------------------------|----------------------------------|----------------------------|
|   | 2017                  | 2016                | Direct-Support Organizations | Health Science Center Affiliates | Shands Hospital and Others |
| <b>ASSETS</b>   |                       |                     |                              |                                  |                            |
| <b>Current Assets:</b>  |                       |                     |                              |                                  |                            |
| Cash and Cash Equivalents (Note 1)                                  | \$ 6,810              | \$ 383              | \$ 32,472                    | \$ 83,192                        | \$ 85,944                  |
| Investments (Note 3)  | 1,353,225             | 1,288,378           | 69,837                       | 45,048                           | 440,834                    |
| Accounts Receivable, Net (Note 4)                                   | 81,924                | 84,941              | 168,309                      | 66,434                           | 350,959                    |
| Loans and Notes Receivable, Net (Note 4)                            | 3,546                 | 2,906               | -                            | -                                | -                          |
| Due From State (Note 5)   | 76,102                | 42,690              | -                            | -                                | -                          |
| Due From Component Units/University (Note 6)                        | 15,324                | 13,951              | 145,947                      | 39,260                           | 95,892                     |
| Inventories   | 4,258                 | 4,449               | 208                          | -                                | 33,784                     |
| Other Current Assets  | 1,884                 | 3,669               | 16,808                       | 1,654                            | 43,901                     |
| <b>Total Current Assets</b>   | <b>1,543,073</b>      | <b>1,441,367</b>    | <b>433,581</b>               | <b>235,588</b>                   | <b>1,051,314</b>           |
| <b>Noncurrent Assets:</b>   |                       |                     |                              |                                  |                            |
| Restricted Cash and Cash Equivalents (Note 1)                       | 15                    | 20                  | 35,606                       | -                                | 32,752                     |
| Restricted Investments (Note 3)                                     | 91,290                | 99,690              | 1,727,889                    | 13,254                           | 560,557                    |
| Other Noncurrent Investments (Note 3)                               | 174,163               | 147,726             | -                            | -                                | -                          |
| Loans and Notes Receivable, Net (Note 4)                            | 36,945                | 38,396              | -                            | -                                | -                          |
| Depreciable Capital Assets, Net (Note 7)                            | 1,822,070             | 1,717,678           | 199,639                      | 59,256                           | 837,656                    |
| Nondepreciable Capital Assets (Note 7)                              | 70,181                | 146,281             | 59,083                       | 6,687                            | 409,186                    |
| Other Noncurrent Assets   | 74                    | 69                  | -                            | 2,472                            | 87,801                     |
| <b>Total Noncurrent Assets</b>                                      | <b>2,194,738</b>      | <b>2,149,860</b>    | <b>2,022,217</b>             | <b>81,669</b>                    | <b>1,927,952</b>           |
| <b>TOTAL ASSETS</b>   | <b>3,737,811</b>      | <b>3,591,227</b>    | <b>2,455,798</b>             | <b>317,257</b>                   | <b>2,979,266</b>           |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                               |                       |                     |                              |                                  |                            |
| Deferred Outflows of Pension Resources (Note 9)                     | 269,062               | 140,766             | -                            | -                                | 95,035                     |
| Accumulated Decrease in Fair Value of Interest Rate Swap Agreements | -                     | -                   | -                            | -                                | 49,228                     |
| Losses on Debt Refunding  | -                     | -                   | -                            | -                                | 376                        |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>                         | <b>269,062</b>        | <b>140,766</b>      | <b>-</b>                     | <b>-</b>                         | <b>144,639</b>             |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>              | <b>\$ 4,006,873</b>   | <b>\$ 3,731,993</b> | <b>\$ 2,455,798</b>          | <b>\$ 317,257</b>                | <b>\$ 3,123,905</b>        |
| <b>LIABILITIES</b>  |                       |                     |                              |                                  |                            |
| <b>Current Liabilities:</b>   |                       |                     |                              |                                  |                            |
| Accounts Payable  | \$ 87,596             | \$ 72,946           | \$ 22,972                    | \$ 20,732                        | \$ 280,947                 |
| Salaries and Wages Payable  | 44,179                | 38,188              | -                            | 8,353                            | 92,213                     |
| Due To Component Units/University (Note 6)                          | 172,155               | 190,128             | 88,007                       | 7,852                            | 61,913                     |
| Unearned Revenue (Note 10)  | 63,814                | 56,687              | 67,367                       | 17                               | -                          |
| Deposits Held in Custody  | 11,696                | 11,390              | -                            | 129                              | -                          |
| Other Current Liabilities   | -                     | -                   | 5,516                        | -                                | -                          |
| Long-Term Liabilities - Current Portion: (Note 11)                  |                       |                     |                              |                                  |                            |
| Capital Improvement Debt Payable                                    | 8,917                 | 9,283               | -                            | -                                | -                          |
| Bonds Payable   | -                     | -                   | 5,140                        | 2,116                            | 24,065                     |
| Loans and Notes Payable   | 572                   | 551                 | 1,014                        | -                                | -                          |
| Installment Purchase Agreements Payable                             | 1,509                 | 1,790               | -                            | -                                | -                          |
| Capital Leases Payable  | 165                   | 155                 | -                            | 94                               | 1,376                      |
| Compensated Absences Payable  | 13,469                | 16,668              | 323                          | -                                | -                          |
| Net Pension Liability   | 5,282                 | 5,680               | -                            | -                                | -                          |
| Liability for Self-Insured Claims                                   | -                     | -                   | 18,778                       | -                                | 6,040                      |
| <b>Total Current Liabilities</b>                                    | <b>409,354</b>        | <b>403,466</b>      | <b>209,117</b>               | <b>39,293</b>                    | <b>466,554</b>             |

# Statement of Net Position

As of June 30, 2017 (amounts expressed in thousands)

|   | University of Florida |                     | Component Units              |                                  |                            |
|---|-----------------------|---------------------|------------------------------|----------------------------------|----------------------------|
|   | 2017                  | 2016                | Direct-Support Organizations | Health Science Center Affiliates | Shands Hospital and Others |
| <b>Noncurrent Liabilities:</b> (Note 11)                                  |                       |                     |                              |                                  |                            |
| Capital Improvement Debt Payable  | \$ 138,443            | \$ 148,820          | \$ -                         | \$ -                             | \$ -                       |
| Bonds Payable   | -                     | -                   | 81,275                       | 28,431                           | 1,070,368                  |
| Loans and Notes Payable   | 9,541                 | 10,113              | 2,534                        | 8,000                            | -                          |
| Installment Purchase Agreements Payable                                   | 1,620                 | 2,634               | -                            | -                                | -                          |
| Capital Leases Payable  | 2,344                 | 2,509               | -                            | 438                              | 5,429                      |
| Compensated Absences Payable  | 105,197               | 100,642             | 3,402                        | -                                | -                          |
| Other Postemployment Benefits Payable                                     | 316,874               | 267,706             | -                            | -                                | -                          |
| Net Pension Liability   | 559,763               | 348,066             | -                            | -                                | -                          |
| Liability for Self-Insured Claims   | -                     | -                   | -                            | -                                | 27,516                     |
| Other Noncurrent Liabilities  | 17,788                | 17,954              | 43,737                       | -                                | 104,237                    |
| <b>Total Noncurrent Liabilities</b>                                       | <b>1,151,570</b>      | <b>898,444</b>      | <b>130,948</b>               | <b>36,869</b>                    | <b>1,207,550</b>           |
| <b>TOTAL LIABILITIES</b>  | <b>1,560,924</b>      | <b>1,301,910</b>    | <b>340,065</b>               | <b>76,162</b>                    | <b>1,674,104</b>           |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                      |                       |                     |                              |                                  |                            |
| Deferred Inflows of Pension Resources (Note 9)                            | 7,330                 | 53,791              | -                            | -                                | 29,128                     |
| Accumulated Increase in Fair Value of Interest Rate Swap Agreements       | -                     | -                   | -                            | -                                | 4,171                      |
| Gains on Debt Refunding   | -                     | -                   | -                            | -                                | 2,732                      |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>                                | <b>7,330</b>          | <b>53,791</b>       | <b>-</b>                     | <b>-</b>                         | <b>36,031</b>              |
| <b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>                | <b>1,568,254</b>      | <b>1,355,701</b>    | <b>340,065</b>               | <b>76,162</b>                    | <b>1,710,135</b>           |
| <b>NET POSITION</b>   |                       |                     |                              |                                  |                            |
| Net Investment in Capital Assets  | 1,729,141             | 1,674,399           | 114,969                      | 26,864                           | 187,946                    |
| Restricted:   |                       |                     |                              |                                  |                            |
| Nonexpendable:  |                       |                     |                              |                                  |                            |
| Endowment   | -                     | -                   | 1,345,934                    | -                                | 253                        |
| Expendable:   |                       |                     |                              |                                  |                            |
| Endowment   | -                     | -                   | 355,998                      | -                                | 13,161                     |
| Loans   | 39,211                | 38,829              | -                            | -                                | -                          |
| Capital Projects  | 138,334               | 116,885             | -                            | -                                | -                          |
| Debt Service  | 3,399                 | 4,811               | -                            | -                                | -                          |
| Other   | 367,131               | 414,880             | 137,562                      | -                                | 170,257                    |
| Unrestricted  | 161,403               | 126,488             | 161,270                      | 214,231                          | 1,042,153                  |
| <b>TOTAL NET POSITION</b>   | <b>2,438,619</b>      | <b>2,376,292</b>    | <b>2,115,733</b>             | <b>241,095</b>                   | <b>1,413,770</b>           |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b> | <b>\$ 4,006,873</b>   | <b>\$ 3,731,993</b> | <b>\$ 2,455,798</b>          | <b>\$ 317,257</b>                | <b>\$ 3,123,905</b>        |

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

# Statement of Revenues, Expenses, and Changes In Net Position

for the Fiscal Year Ended June 30, 2017 (amounts expressed in thousands)

|  | University of Florida |                     | Component Units              |                                  |                            |
|--|-----------------------|---------------------|------------------------------|----------------------------------|----------------------------|
|  | 2016-17               | 2015-16             | Direct-Support Organizations | Health Science Center Affiliates | Shands Hospital and Others |
| <b>OPERATING REVENUES</b>                                    |                       |                     |                              |                                  |                            |
| Student Tuition and Fees                                     | \$ 587,425            | \$ 557,923          | \$ -                         | \$ -                             | \$ -                       |
| Scholarship Allowances                                       | (155,766)             | (147,147)           | -                            | -                                | -                          |
| Student Tuition and Fees, Net of Scholarship Allowances      | 431,659               | 410,776             | -                            | -                                | -                          |
| Federal Grants and Contracts                                 | 432,731               | 407,784             | -                            | -                                | -                          |
| State and Local Grants and Contracts                         | 50,020                | 46,649              | -                            | -                                | -                          |
| Nongovernmental Grants and Contracts                         | 793,017               | 756,686             | -                            | -                                | -                          |
| Sales and Services of Auxiliary Enterprises (Note 12)        | 131,406               | 125,974             | -                            | -                                | -                          |
| Sales and Services of Educational Departments                | 55,347                | 55,648              | -                            | -                                | -                          |
| Sales and Services of Component Units                        | -                     | -                   | 178,540                      | -                                | -                          |
| Hospital Revenues  | -                     | -                   | -                            | 805,997                          | 2,097,450                  |
| Gifts and Donations - Component Units                        | -                     | -                   | 90,575                       | -                                | -                          |
| Royalties and Licensing Fees - Component Units               | -                     | -                   | 34,352                       | -                                | -                          |
| Interest on Loans and Notes Receivable                       | 1,013                 | 1,146               | -                            | -                                | -                          |
| Other Operating Revenues                                     | 2,489                 | 3,649               | 9,055                        | 99,354                           | 33,038                     |
| <b>Total Operating Revenues</b>                              | <b>1,897,682</b>      | <b>1,808,312</b>    | <b>312,522</b>               | <b>905,351</b>                   | <b>2,130,488</b>           |
| <b>OPERATING EXPENSES</b>                                    |                       |                     |                              |                                  |                            |
| Employee Compensation and Benefits                           | 2,022,323             | 1,882,675           | 1,491                        | 91,168                           | 920,577                    |
| Services and Supplies  | 552,130               | 546,030             | 347,268                      | 209,807                          | 926,061                    |
| Utilities and Communications                                 | 71,928                | 70,588              | -                            | -                                | -                          |
| Scholarships, Fellowships, and Waivers, Net                  | 106,891               | 100,159             | -                            | -                                | -                          |
| Depreciation   | 137,484               | 132,523             | 11,543                       | 8,864                            | 86,571                     |
| Self-Insured Claims and Expenses                             | -                     | -                   | -                            | -                                | 4,081                      |
| <b>Total Operating Expenses (Note 18)</b>                    | <b>2,890,756</b>      | <b>2,731,975</b>    | <b>360,302</b>               | <b>309,839</b>                   | <b>1,937,290</b>           |
| <b>Operating Income (Loss)</b>                               | <b>(993,074)</b>      | <b>(923,663)</b>    | <b>(47,780)</b>              | <b>595,512</b>                   | <b>193,198</b>             |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                      |                       |                     |                              |                                  |                            |
| State Noncapital Appropriations                              | 712,106               | 674,086             | 8,000                        | -                                | 7,050                      |
| Federal and State Student Financial Aid                      | 116,963               | 115,948             | -                            | -                                | -                          |
| Noncapital Grants, Contracts, and Gifts                      | 116,665               | 136,928             | -                            | -                                | -                          |
| Investment Income  | 37,952                | 23,544              | 181,833                      | 959                              | 29,989                     |
| Net Increase (Decrease) in the Fair Value of Investments     | 21,100                | (15,946)            | 1,402                        | 1,045                            | 20,661                     |
| Investment Expenses  | (4,141)               | (4,047)             | (312)                        | (842)                            | -                          |
| Other Nonoperating Revenues                                  | 4,243                 | 3,417               | 10,824                       | -                                | 7,271                      |
| Gain (Loss) on Disposal of Capital Assets                    | (16,481)              | (2,072)             | 1,345                        | 5,100                            | 1,318                      |
| Interest on Capital Asset-Related Debt                       | (7,146)               | (7,585)             | (1,938)                      | -                                | (21,728)                   |
| Other Nonoperating Expenses                                  | (8,712)               | (5,019)             | (53,639)                     | (591,684)                        | (108,539)                  |
| <b>Net Nonoperating Revenues (Expenses)</b>                  | <b>972,549</b>        | <b>919,254</b>      | <b>147,515</b>               | <b>(585,422)</b>                 | <b>(63,978)</b>            |
| <b>Income (Loss) Before Other Revenues</b>                   | <b>(20,525)</b>       | <b>(4,409)</b>      | <b>99,735</b>                | <b>10,090</b>                    | <b>129,220</b>             |
| State Capital Appropriations                                 | 59,430                | 33,076              | -                            | -                                | -                          |
| Capital Grants, Contracts, and Donations                     | 23,422                | 27,594              | -                            | -                                | -                          |
| Additions to Permanent Endowments                            | -                     | -                   | 76,868                       | -                                | -                          |
| <b>Total Other Revenues</b>                                  | <b>82,852</b>         | <b>60,670</b>       | <b>76,868</b>                | <b>-</b>                         | <b>-</b>                   |
| <b>Increase in Net Position</b>                              | <b>62,327</b>         | <b>56,261</b>       | <b>176,603</b>               | <b>10,090</b>                    | <b>129,220</b>             |
| <b>Net Position, Beginning of Year</b>                       | <b>2,376,292</b>      | <b>2,320,031</b>    | <b>1,972,476</b>             | <b>227,847</b>                   | <b>1,284,550</b>           |
| Adjustment to Beginning Net Position (Note 2)                | -                     | -                   | (33,346)                     | 3,158                            | -                          |
| <b>Adjusted Net Position, Beginning of Year, as Restated</b> | <b>2,376,292</b>      | <b>2,320,031</b>    | <b>1,939,130</b>             | <b>231,005</b>                   | <b>1,284,550</b>           |
| <b>Net Position, End of Year</b>                             | <b>\$ 2,438,619</b>   | <b>\$ 2,376,292</b> | <b>\$ 2,115,733</b>          | <b>\$ 241,095</b>                | <b>\$ 1,413,770</b>        |

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

# Statement of Cash Flows

for the Fiscal Year Ended June 30, 2017 (amounts expressed in thousands)

|  | <b>University of Florida</b> |                     |
|--|------------------------------|---------------------|
|  | <b>2016-17</b>               | <b>2015-16</b>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                              |                     |
| Tuition and Fees, Net  | \$ 432,478                   | \$ 408,000          |
| Grants and Contracts   | 1,276,968                    | 1,225,608           |
| Sales and Services of Auxiliary Enterprises  | 130,394                      | 129,456             |
| Sales and Services of Educational Departments  | 56,596                       | 56,515              |
| Repayment of Loans and Notes Receivable from Students  | 7,707                        | 6,365               |
| Interest on Loans Receivable   | 986                          | 1,122               |
| Other Operating Receipts   | 8,992                        | 2,758               |
| Payments to Employees  | (1,929,267)                  | (1,841,227)         |
| Payments to Suppliers for Goods and Services   | (612,065)                    | (608,830)           |
| Payments to Students for Scholarships and Fellowships  | (106,891)                    | (100,159)           |
| Loans Issued to Students   | (6,896)                      | (6,692)             |
| <b>Net Cash Used by Operating Activities</b>   | <b>(740,998)</b>             | <b>(727,084)</b>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>   |                              |                     |
| State Noncapital Appropriations  | 712,106                      | 674,086             |
| Federal and State Financial Aid  | 116,963                      | 115,948             |
| Noncapital Grants, Contracts, and Gifts  | 116,665                      | 136,928             |
| Direct Loan Program Receipts   | 258,360                      | 255,279             |
| Direct Loan Program Disbursements  | (258,369)                    | (255,270)           |
| Net Change in Funds Held for Others  | (3,284)                      | (8,667)             |
| Other Nonoperating Receipts  | 568                          | 567                 |
| Other Nonoperating Disbursements   | (7,839)                      | (4,405)             |
| <b>Net Cash Provided by Noncapital Financing Activities</b>  | <b>935,170</b>               | <b>914,466</b>      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>  |                              |                     |
| State Capital Appropriations   | 26,018                       | 55,691              |
| Capital Grants, Contracts, and Donations   | 23,392                       | 27,977              |
| Proceeds from Sales of Capital Assets  | 605                          | 1,717               |
| Other Receipts for Capital Projects  | 3,660                        | 2,854               |
| Purchase or Construction of Capital Assets   | (179,220)                    | (207,523)           |
| Principal Paid on Capital Debt and Leases  | (27,082)                     | (11,878)            |
| Interest Paid on Capital Debt and Leases   | (7,123)                      | (7,585)             |
| <b>Net Cash Used by Capital and Related Financing Activities</b>   | <b>(159,750)</b>             | <b>(138,747)</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                              |                     |
| Sale of Investments  | 1,667,452                    | 1,718,279           |
| Purchase of Investments  | (1,730,107)                  | (1,782,829)         |
| Investment Income  | 34,655                       | 14,018              |
| <b>Net Cash Used by Investing Activities</b>   | <b>(28,000)</b>              | <b>(50,532)</b>     |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>  | <b>6,422</b>                 | <b>(1,897)</b>      |
| <b>Cash and Cash Equivalents, Beginning of Year</b>  | <b>403</b>                   | <b>2,300</b>        |
| <b>Cash and Cash Equivalents, End of Year</b>  | <b>\$ 6,825</b>              | <b>\$ 403</b>       |
| <b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>   |                              |                     |
| Operating Loss   | \$ (993,074)                 | \$ (923,663)        |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:  |                              |                     |
| Depreciation Expense   | 137,484                      | 132,523             |
| Change in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:  |                              |                     |
| Receivables, Net   | 3,766                        | (4,702)             |
| Due From Component Units   | (1,373)                      | 6,629               |
| Inventories  | 191                          | 132                 |
| Other Assets   | 278                          | 296                 |
| Accounts Payable   | 11,525                       | 7,360               |
| Salaries and Wages Payable   | 5,991                        | 12,600              |
| Unearned Revenue   | 7,127                        | 13,371              |
| Deposits Held in Custody   | 21                           | (477)               |
| Other Postemployment Benefits Payable  | 49,168                       | 50,167              |
| Compensated Absences Payable   | 1,356                        | (11,970)            |
| Net Pension Liability  | 211,299                      | 129,119             |
| Pension Deferred Outflows  | (128,296)                    | (31,958)            |
| Pension Deferred Inflows   | (46,461)                     | (106,511)           |
| <b>NET CASH USED BY OPERATING ACTIVITIES</b>   | <b>\$ (740,998)</b>          | <b>\$ (727,084)</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES</b>   |                              |                     |
| <i>The following items are recognized on the Statement of Net Position or the Statement of Revenues, Expenses, and Changes in Net Position, but are not cash transactions for the Statement of Cash Flows:</i> |                              |                     |
| Unrealized gain on investments   | \$ 21,100                    |                     |
| Acquisition of equipment under installment purchase agreements   | \$ 692                       |                     |
| Loss on disposal of capital assets   | \$ (16,481)                  |                     |
| Loss on refunded 2005A Housing Bonds will be amortized over the life of the 2016A refunding Housing Bonds  | \$ (95)                      |                     |

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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## 1. Summary of Significant Accounting Policies

The significant accounting policies followed by the University of Florida are described below to enhance the usefulness of the financial statements.

### A. REPORTING ENTITY

The University of Florida 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 thirteen members. The Governor appoints six citizen members and the Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five 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 Florida Board of Governors' Regulations. The Trustees select 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 or incomplete. Based on the application of these criteria, the University of Florida is a component unit of the state of Florida, and its financial balances and activities are discretely presented in the State's Comprehensive Annual Financial Report.

### B. DISCRETELY PRESENTED COMPONENT UNITS

Based on the application of the criteria for determining component units, certain affiliated organizations are required to be included within the University reporting entity as discretely presented component units because of the significance of their relationship with the University. These organizations are legally separate from the University and are governed by separate boards. The University further categorizes its component units as Direct-Support Organizations, Health Science Center Affiliates, and Shands Hospital and Others. An annual audit of each organization's financial statements is conducted by independent certified public accountants. The annual reports are submitted to the Auditor General and the University Board of Trustees. Additional information is presented in Note 19.

However, financial activities of certain component units are not included in the University's financial statements and are denoted below with an asterisk (\*). The total assets and operating revenues related to these component units are \$32 million and \$19 million, respectively. These amounts represent approximately one percent of the total aggregate component units' assets and operating revenues.



### C. DIRECT-SUPPORT ORGANIZATIONS

The University's direct-support organizations, as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011, are considered component units of the University of Florida and therefore, the latest audited financial statements of these organizations are discretely presented in the financial statements of the University. These legally separate, not-for-profit corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- **University of Florida Foundation, Inc.,** solicits, collects, manages, and directs contributions to the various academic departments and programs of the University and assists the University in fund raising, public relations, and maintenance of alumni records. Their financial statements include the activities of the University of Florida Alumni Association, Inc.
- **The University Athletic Association, Inc.,** conducts various inter-collegiate athletic programs for and on behalf of the University.
- **University of Florida Research Foundation, Inc.,** promotes, encourages, and assists research activities of the University through income derived from or related to the development and commercialization of intellectual properties, which include inventions, discoveries, processes, and work products.
- **GatorCare Health Management Corporation** coordinates and facilitates the management of the self-insured health insurance plan of the University and its participating affiliated employers, collecting and paying employer and employee premiums.
- **Florida Foundation Seed Producers, Inc.,** supplies Florida farmers and producers with crop seed and nursery stock. This organization stocks foundation seed of the best-known varieties acceptable to Florida climate and soils in adequate quantities and at reasonable prices.
- **University of Florida Development Corporation** develops and maintains Innovation Square where the University-owned Florida Innovation Hub is located.
- **Gator Boosters, Inc.,** solicits funds for the benefit of the University athletic programs.
- **Citrus Research and Development Foundation, Inc.,** advances disease and production research and product development activities to ensure the survival and competitiveness of Florida's citrus growers through innovation.
- **University of Florida Alumni Association, Inc.,** supports activities of the alumni of the University of Florida. Its financial transactions are reflected in the financial statements of the University of Florida Foundation, Inc.
- **The University of Florida Law Center Association, Inc.,\*** promotes, supports, and improves legal education, legal research, the legal profession, and the administration of justice; and assists the Levin College of Law in the development and maintenance of a law center.
- **Florida 4-H Club Foundation, Inc.,\*** promotes the educational objectives of the 4-H Youth Development Program, an official part of the Florida Cooperative Extension Service.
- **University of Florida Leadership and Education Foundation, Inc.,\*** furthers agriculture and natural resource education and related activities, promotes agriculture and natural resources leadership, and makes contributions to and confer benefits upon the University.
- **University of Florida Investment Corporation\*** promotes the educational purposes of the University of Florida by providing investment research, advice, counsel, and management to and for the University Board of Trustees and affiliated organizations of the University.
- **Citrus Research and Education Foundation, Inc.,\*** expedites citrus production, propagates new plant materials, collects and analyzes environmental impact research data, and provides research and education support to the University of Florida Citrus Research and Education Center at Lake Alfred.
- **Treasure Coast Agricultural Research Foundation, Inc.,\*** supports, encourages, and fosters research, education, and extension at the Institute of Food and Agricultural Sciences of the University on issues related to the citrus industry within the Indian River region.
- **UF Historic St. Augustine, Inc.,\*** ensures the long-term preservation and interpretation of State-owned historic properties in St. Augustine.
- **Southwest Florida Research and Education Foundation, Inc.,\*** provides research and educational support to the University of Florida Southwest Florida Research and Education Center.
- **Cattle Enhancement Board, Inc.,\*** promotes research, education and extension at, or for the benefit of, the Institute of Food and Agricultural Sciences at the University of Florida on issues related to the Florida cattle industry, including, but not limited to production, disease prevention, forage development, and genetic research and technology.

### D. HEALTH SCIENCE CENTER AFFILIATES

The corporations listed below, except University of Florida Jacksonville Healthcare, Inc., and Faculty Clinic, Inc., are Faculty Practice Plans, as provided for in Board of Governors Regulation 9.017. The Faculty Practice Plans provide educationally-oriented clinical practice settings and opportunities through which faculty members provide health, medical, veterinary, and dental care to patients as an integral part of their academic activities and their employment as faculty. Because these faculty practice activities generate income, the colleges are authorized to



regulate fees generated from faculty practice and maintain Faculty Practice Plans for the orderly collection and distribution of fees. These organizations provide significant support for the clinical instruction function of the University of Florida J. Hillis Miller Health Science Center (JHMHC) and are component units of the University of Florida.

- **Florida Clinical Practice Association, Inc.**, bills and collects clinical professional fees to support the educational, research, and service programs of the University of Florida College of Medicine.

- **University of Florida Jacksonville Physicians, Inc.**, bills and collects professional fees from the clinical practice of the University of Florida physicians in order to fund and promote the educational, clinical and research missions, and support the clinical activities, of the Jacksonville campus of the College of Medicine.

- **Faculty Associates, Inc.**, bills and collects clinical professional fees to support the educational, research, and service programs of the University of Florida College of Dentistry.

- **Florida Veterinary Medicine Faculty Association, Inc.**, bills and collects clinical professional fees to support the educational, research, and service programs of the University of Florida College of Veterinary Medicine.

- **University of Florida College of Pharmacy Faculty Practice Association, Inc.**, performs billing and collection of fees to support the educational, research, and service programs of the University of Florida College of Pharmacy.

- **Faculty Clinic, Inc.**,\* a not-for-profit, tax-exempt corporation operates primarily as a facility management company that

leases space to Shands Jacksonville and University of Florida Jacksonville Physicians, Inc.

- **University of Florida College of Nursing Faculty Practice Association, Inc.**,\* performs billing and collection of professional fees to support the educational, research, and service programs of the University of Florida College of Nursing.

- **Florida Health Professions Association, Inc.**,\* performs billing and collection of clinical professional fees to support the educational, research, and service programs of the University of Florida College of Public Health and Health Professions.

#### E. SHANDS HOSPITAL AND OTHERS

- **Shands Teaching Hospital and Clinics, Inc.**, (Shands) was incorporated October 15, 1979, as a not-for-profit corporation. Shands, a major tertiary care teaching institution, is a leading referral center in the state of Florida and the southeast United States and facilitates medical education programs at the University.

Shands entered into a contractual agreement with the State Board of Education as of July 1, 1980, as subsequently restated and amended, to provide for the use of hospital facilities at the JHMHC through December 31, 2030, with renewal provisions. The contractual agreement also provides for the transfer to Shands of all other assets and liabilities arising from the operation of the hospital facilities prior to July 1, 1980. At termination of the contractual agreement, the net position of Shands reverts to the State Board of Education. Legal title to all buildings and improvements transferred to Shands remains with the state of Florida during the term of the contractual agreement. The contractual agreement provides for a

12-month grace period for any event of default, other than the bankruptcy of Shands. In addition, the contractual agreement limits the right of the State Board of Education to terminate the contractual agreement solely to the circumstance in which Shands declares bankruptcy and, in such event, requires net revenues derived from the operation of the hospital facilities to continue to be applied to the payment of Shands' debts.

Under the terms of the contractual agreement, Shands is obligated to manage, operate, maintain, and insure the hospital facilities in support of the programs of the JHMHC and further agrees to contract with the State Board of Education for the provision of these programs. By operation of law, the University of Florida Board of Trustees has become the successor-in-interest to the State Board of Education.

■ **Shands Jacksonville HealthCare, Inc.**, (Shands Jacksonville) is a Florida not-for-profit corporation. Shands Jacksonville was organized primarily to provide healthcare and related services to the community, including the City of Jacksonville and surrounding counties, and to support the teaching and research missions of the University.

■ **University of Florida Self-Insurance Program** (the Program) was created by the Florida Board of Regents, succeeded by the Florida Board of Governors, pursuant to Section 1004.24, Florida Statutes. The Program provides comprehensive general liability and professional liability (malpractice) coverage for the University of Florida and affiliated teaching hospitals that are providing education in healthcare or veterinary services.

■ **University of Florida Healthcare Education Insurance Company** (HEIC) was created on September 1, 1994, as a self-insurance mechanism created pursuant to Section 1004.24, Florida Statutes. HEIC writes coverage for the participants in the Self-Insurance Program (the Program) for loss exposure above the Program's retention. HEIC obtains excess loss reinsurance coverage from commercial insurance carriers for certain layers of exposure.

## F. 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 of Florida 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 entity-wide reporting including the following components:

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

## G. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues, expenses and related assets, deferred outflows of resources, liabilities, and deferred inflows of resources are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from non-exchange 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 component units use the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. Twenty-one component units follow GASB standards of accounting and financial reporting. Nine component units (University of Florida Foundation, Inc., Florida Foundation Seed Producers, Inc., Southwest Florida Research and Education Foundation, Inc., Citrus Research and Education Foundation, Inc., Citrus Research and Development Foundation, Inc., Treasure Coast Agricultural Research Foundation, Inc., University of Florida Alumni Association, Inc., Cattle Enhancement Board, Inc., and University of Florida Investment Corporation) follow FASB standards of accounting and financial reporting for not-for-profit organizations.

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 on capital assets. Nonoperating revenues include state noncapital appropriations, federal and state student financial aid, investment income, and state capital appropriations for construction projects. Interest on capital asset-related debt is a nonoperating expense.

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 scholarships, discounts, and allowances. Tuition scholarships, discounts, and allowances are the differences between the stated charge for goods and services provided by the University and the amount that is actually paid by a student or a third party making payments 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 scholarships, discounts, and allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be 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*.

#### H. CASH AND CASH EQUIVALENTS

The amount reported by the University as cash and cash equivalents consists 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 assets or other restricted assets, are classified as restricted.

#### I. INVESTMENTS AND FAIR VALUE MEASUREMENT

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. Level 3 inputs are significant unobservable inputs. The University reports certain investments at net asset value as allowed per GASB Statement No. 72, *Fair Value Measurement and Application*.

#### J. CAPITAL ASSETS

University capital assets consist of land, construction in progress, works of art and historical treasures, buildings, infrastructure and other improvements, furniture and equipment, library resources, property under capital lease and leasehold improvements, computer software, and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value on the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$4 million for intangible assets, which includes computer software, \$5,000 for tangible personal property, and \$250 for library resources. The costs of all new buildings and projects adding new square footage are capitalized. Infrastructure and leasehold improvements have a \$250,000 capitalization threshold. For building renovations, the threshold is \$250,000, or the entire amount if the costs are at least 25% of the cost basis of the building. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 5 to 50 years, depending on construction
- Infrastructure and Other Improvements – 10 to 50 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Property Under Capital Lease and Leasehold Improvements – 10 to 50 years
- Computer Software – 5 years

#### K. NONCURRENT LIABILITIES

Noncurrent liabilities include principal amounts of capital improvement debt payable, loans and notes payable, installment purchase agreements payable, capital leases payable, compensated absences payable, other postemployment benefits payable, net pension liabilities, and other noncurrent liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt payable is reported net of unamortized premiums or discounts and losses on refunding. The University amortizes debt premiums and discounts over





the life of the debt using the straight-line method. Losses on refunding are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method.

#### L. 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. For this purpose, 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. Adjustments to Beginning Net Position

University of Florida Foundation, Inc. elected to no longer capitalize the permanent collections of the Samuel P. Harn Museum of Art, effective July 1, 2016, as a result of the Museum's accreditation review by the American Alliance of Museums (AAM).

Additionally, the University is presenting the financial activity of both Florida Foundation Seed Producers, Inc. and University of Florida College of Pharmacy Faculty Practice Association, Inc. discretely in the University's financial statements. These component units were not discretely presented in the 2015-16 fiscal year.

Table 1 summarizes the adjustments to beginning net position reported in the component units' Statement of Revenues, Expenses, and Changes in Net Position.

**Table 1. Adjustments to Beginning Net Position - Component Units**

| Description  | Direct-Support Organizations | Health Science Center Affiliates |
|--|------------------------------|----------------------------------|
| Florida Foundation Seed Producers, Inc.                                      | \$ 6,581,039                 | \$ -                             |
| University of Florida Foundation, Inc.                                       | (39,927,071)                 | -                                |
| University of Florida College of Pharmacy Faculty Practice Association, Inc. | -                            | 3,157,638                        |
| <b>Total Adjustments to Beginning Net Position</b>                           | <b>\$ (33,346,032)</b>       | <b>\$ 3,157,638</b>              |

## 3. 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 University's Board of Trustees has adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved



by the University’s Board of Trustees, as authorized by law. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital

assets are classified as restricted. Investments of the University and its component units at June 30, 2017, are reported at fair value and shown in Tables 2 through 5.

**Table 2. University Investments**

| Investments by Fair Value Level                          | Total                   | Fair Value Measurements Using                                  |   |   |
|--|-------------------------|--|---|---|
|  |                         | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| External Investment Pool:                                |                         |  |   |   |
| State Treasury Special Purpose Investment Account        | \$ 881,138,515          | \$ -   | \$ -  | \$ 881,138,515                            |
| State Board of Administration Debt Service Accounts      | 1,255,509               | 1,255,509  | -   | -   |
| <b>Total Investments by Fair Value Level</b>             | <b>882,394,024</b>      | <b>\$ 1,255,509</b>  | <b>\$ -</b>                                   | <b>\$ 881,138,515</b>                     |
| <b>Investments Measured at the Net Asset Value (NAV)</b> |                         |  |   |   |
| Private Equity Funds                                     | 736,284,385             |  |   |   |
| <b>Total University Investments</b>                      | <b>\$ 1,618,678,409</b> |  |   |   |

**Table 3. University Investments Measured at the NAV**

| Investments Measured at the NAV | Fair Value     | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---------------------------------|----------------|----------------------|--|--------------------------|
| Private Equity Funds            | \$ 736,284,385 | \$ -                 | N/A  | N/A                      |

■ **Private Equity Funds** - This category includes investments in several limited partnership funds that invest in equity securities and debt of private companies.

**Table 4. Component Unit Investments**

| Investments by Fair Value Level                          | Total                   | Fair Value Measurements Using                                  |   |   |
|--|-------------------------|--|---|---|
|  |                         | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| External Investment Pool:                                |                         |  |   |   |
| State Treasury Special Purpose Investment Account        | \$ 213,568,985          | \$ -   | \$ -  | \$ 213,568,985                            |
| Certificates of Deposit                                  | 603,447                 | 603,447  | -   | -   |
| Commercial Paper   | 5,143,417               | 5,143,417  | -   | -   |
| US Guaranteed Obligations                                | 4,147,676               | 2,280,240  | 1,867,436                                     | -   |
| Federal Agency Obligations                               | 4,940,685               | -  | 4,940,685                                     | -   |
| Domestic Bonds and Notes                                 | 113,853,873             | 46,173,000   | 67,680,873                                    | -   |
| International Bonds and Notes                            | 1,959,105               | -  | 1,959,105                                     | -   |
| Domestic Stock   | 1,287,587               | 1,287,587  | -   | -   |
| International Stock                                      | 99,808                  | 99,808   | -   | -   |
| Bond Mutual Funds  | 146,729,420             | 103,252,894  | 43,476,526                                    | -   |
| Equity Mutual Funds                                      | 135,301,469             | 82,748,568   | 52,552,901                                    | -   |
| Other Investments  | 36,164,880              | 15,753,272   | 20,372,926                                    | 38,682                                    |
| Private Equity Funds                                     | 15,890                  | -  | 15,890  | -   |
| Money Market Funds                                       | 9,400,482               | 9,400,482  | -   | -   |
| <b>Total Investments by Fair Value Level</b>             | <b>673,216,724</b>      | <b>\$ 266,742,715</b>  | <b>\$ 192,866,342</b>                         | <b>\$ 213,607,667</b>                     |
| <b>Investments Measured at the Net Asset Value (NAV)</b> |                         |  |   |   |
| Domestic Equity  | 10,615                  |  |   |   |
| International Equity                                     | 53,602                  |  |   |   |
| Hedge Funds  | 5,627,598               |  |   |   |
| Private Equity Funds                                     | 2,121,432,943           |  |   |   |
| <b>Total Investments Measured at the NAV</b>             | <b>2,127,124,758</b>    |  |   |   |
| <b>Total Investments Measured at Fair Value</b>          | <b>2,800,341,482</b>    |  |   |   |
| <b>Other</b>   |                         |  |   |   |
| Commercial Paper   | 6,431,000               |  |   |   |
| Money Market Funds                                       | 5,469,000               |  |   |   |
| Cash Surrender Value of Life Insurance Policy            | 467,974                 |  |   |   |
| Cash Collateral on Deposit with Swap Counterparty        | 29,668,000              |  |   |   |
| Real Estate Investments                                  | 4,246,599               |  |   |   |
| Other Investments  | 10,794,488              |  |   |   |
| <b>Total Other Investments</b>                           | <b>57,077,061</b>       |  |   |   |
| <b>Total Component Unit Investments</b>                  | <b>\$ 2,857,418,543</b> |  |   |   |

**Table 5. Component Unit Investments Measured at the NAV**

| Investments Measured at the NAV         | Fair Value              | Unfunded Commitments  | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---|-------------------------|-----------------------|--|--------------------------|
| Domestic Equity                         | \$ 10,615               | \$ -                  | Illiquid                                     | N/A                      |
| International Equity                    | 53,602                  | -                     | Illiquid                                     | N/A                      |
| Hedge Funds                             | 5,627,598               | -                     | Quarterly                                    | 45 Days                  |
| Private Equity Funds                    | 2,121,432,943           | 207,546,892           | Monthly                                      | 30-45 Days               |
| <b>Total Component Unit Investments</b> | <b>\$ 2,127,124,758</b> | <b>\$ 207,546,892</b> |  |                          |

■ **Domestic equity** - This category includes equity interest in a publicly traded domestic company focused on next generation biopharmaceutical therapeutics.

■ **International equity** - This category includes an investment in a foreign based publicly traded company focused on providing law enforcement with new tools and technology.

■ **Hedge Funds** - This category includes an investment in a hedge fund in which the fund manager is authorized to invest in a broad spectrum of securities that include, but are not limited to the following: equity and debt securities, currency, commodities, foreign debt, options, futures, and swaps.

■ **Private Equity Funds** - This category includes investments in several limited partnership funds that invest in equity securities and debt of private companies.



#### A. EXTERNAL INVESTMENT POOLS

The University and its discretely presented component units (see Note 1) reported investments at fair value totaling \$881,138,515 and \$213,568,985, respectively, at June 30, 2017, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. The SPIA investment pool carried a credit rating of A+f by Standard & Poor's and had an effective duration of 2.8 years and fair value factor of 0.9923 at June 30, 2017. Participants contribute to the 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 the financial statements of the State's Comprehensive Annual Financial Report.

#### B. STATE BOARD OF ADMINISTRATION DEBT SERVICE ACCOUNTS

The University reported investments at fair value totaling \$1,255,509 at June 30, 2017, in the State Board of Administration (SBA) Debt Service Accounts. These investments are used to

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

#### C. OTHER INVESTMENTS

In addition to external investment pools, the University and its discretely presented component units invested in various debt and equity securities, money market funds, and mutual funds. For the University, the majority of the other investments are private equity funds managed by the University of Florida Investment Corporation (UFICO). For the University's discretely presented component units, other investments are those reported primarily by the University of Florida Foundation, Inc., The University Athletic Association, Inc., Florida Clinical Practice Association, Inc., Shands Teaching Hospital and Clinics, Inc., Shands Jacksonville HealthCare, Inc., and the University of Florida Self-Insurance Program. The following risks apply to the University's and its discretely presented component units' investments other than external investment pools:

- Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Pursuant to Section 218.415(16), Florida Statutes, the University's investments in securities must provide sufficient liquidity to pay obligations as they come due. Investments of the University's component units (excluding those reporting under FASB standards) in debt securities, bonds and notes, and bond mutual funds, and their future maturities at June 30, 2017, are shown in Table 6.



■ **Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the United States Government or obligations explicitly guaranteed by the United States Government are not considered to have credit risk and do not require disclosure of credit quality. The private equity funds are unrated. At June 30, 2017, the University’s component units (excluding those reporting under FASB standards) had bonds and notes and bond mutual funds, with quality ratings by nationally recognized rating agencies (e.g., Moody’s Investors Service), as shown in Table 7.

■ **Custodial Credit Risk** – Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University’s name. The University has no formal policy on custodial credit risk. The component units manage their custodial credit risk based on various investment policies, which may be obtained separately from the component units.

■ **Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of the University’s investments in a single issuer. The University has no formal policy on concentration of credit risk. The component units manage their concentration of credit risk based on various investment policies, which may be obtained separately from the component units.

## 4. Receivables

### A. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for grant and contract reimbursements due from third parties, various sales and services provided to students and third parties, student tuition and fees, and interest accrued on investments and loans receivable. Accounts receivable, net of an allowance for uncollectible accounts, reported as of June 30, 2017, are summarized in Table 8.

**Table 8. Accounts Receivable**

| Description                                   |                      |
|---|----------------------|
| Grants and Contracts                          | \$ 66,343,726        |
| Sales and Services of Auxiliary Enterprises   | 4,878,933            |
| Student Tuition and Fees                      | 8,017,771            |
| Sales and Services of Educational Departments | 998,410              |
| Interest                                      | 1,685,659            |
| <b>Total Accounts Receivable, Net</b>         | <b>\$ 81,924,499</b> |

### B. LOANS AND NOTES RECEIVABLE

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

**Table 6. Component Units Debt Investment Maturities**

| Types of Investments                               | Fair Value            | Investment Maturities (in years) |                       |                      |                     |
|--|-----------------------|----------------------------------|-----------------------|----------------------|---------------------|
|  |                       | Less than 1                      | 1-5                   | 6-10                 | More than 10        |
| US Government and Federally-Guaranteed Obligations | \$ 3,685,642          | \$ -                             | \$ 2,280,240          | \$ -                 | \$ 1,405,402        |
| Federal Agency Obligations                         | 4,940,685             | 2,827,745                        | 2,112,940             | -                    | -                   |
| Bonds and Notes                                    | 115,657,978           | 29,581,835                       | 84,795,975            | 1,280,168            | -                   |
| Bond Mutual Funds                                  | 135,771,272           | 3,763,471                        | 34,328,983            | 97,678,818           | -                   |
| <b>Total</b>                                       | <b>\$ 260,055,577</b> | <b>\$ 36,173,051</b>             | <b>\$ 123,518,138</b> | <b>\$ 98,958,986</b> | <b>\$ 1,405,402</b> |

**Table 7. Component Units Debt Investments Quality Ratings**

| Types of Investments       | Fair Value            | Quality Ratings      |                      |                      |                             |
|----------------------------|-----------------------|----------------------|----------------------|----------------------|-----------------------------|
|                            |                       | AAA/Aaa              | AA/Aa                | A/Ba                 | Less than A/Ba or Not Rated |
| Federal Agency Obligations | \$ 4,940,685          | \$ 2,112,940         | \$ 2,827,745         | \$ -                 | \$ -                        |
| Bonds and Notes            | 115,657,978           | 7,511,759            | 1,908,753            | 5,033,700            | 101,203,766                 |
| Money Market Funds         | 14,869,482            | 14,819,482           | -                    | -                    | 50,000                      |
| Bond Mutual Funds          | 135,771,272           | 49,282,881           | 51,621,574           | 16,481,360           | 18,385,457                  |
| <b>Total</b>               | <b>\$ 271,239,417</b> | <b>\$ 73,727,062</b> | <b>\$ 56,358,072</b> | <b>\$ 21,515,060</b> | <b>\$ 119,639,223</b>       |

**C. ALLOWANCES FOR UNCOLLECTIBLE RECEIVABLES**

Allowances for uncollectible accounts and loans and notes receivable are reported based upon management's best estimate as of fiscal year-end, considering type, age, collection history, and other factors considered appropriate. Accounts receivable for student tuition and fees, various sales and services provided to students and third parties, and interest are reported net of an allowance of \$8,372,433, which is 35% of total related accounts receivable. Loans and notes receivable are reported net of an allowance of \$4,091,032, which is 9.2% of total related loans and notes receivable. No allowance has been accrued for grants and contracts receivable. University management considers these to be fully collectible.

**5. Due From State**

This amount consists of \$76,101,652 of Public Education Capital Outlay and Capital Improvement Fee Trust Fund allocations due from the State to the University for construction of University facilities.

**6. Due From and To Component Units/University**

Component units' due from and due to amounts include receivables and payables between the various component unit columns. Some component units are not presented (see Note 1). Accordingly, amounts reported by the University as due from and to component units on the Statement of Net Position may not agree with amounts reported by the component units as due from and to the University.

**7. Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2017, is presented in Table 9.

**Table 9. Capital Assets**

| Description   | Beginning Balance       | Additions             | Reductions            | Ending Balance          |
|---|-------------------------|-----------------------|-----------------------|-------------------------|
| <b>Nondepreciable Capital Assets:</b>                   |                         |                       |                       |                         |
| Land  | \$ 12,467,035           | \$ -                  | \$ -                  | \$ 12,467,035           |
| Construction in Progress                                | 129,530,267             | 133,169,696           | 209,340,931           | 53,359,032              |
| Works of Art and Historical Treasures                   | 4,284,174               | 71,124                | -                     | 4,355,298               |
| <b>Total Nondepreciable Capital Assets</b>              | <b>146,281,476</b>      | <b>133,240,820</b>    | <b>209,340,931</b>    | <b>70,181,365</b>       |
| <b>Depreciable Capital Assets:</b>                      |                         |                       |                       |                         |
| Buildings   | 2,581,557,638           | 201,481,409           | 22,492,583            | 2,760,546,464           |
| Infrastructure and Other Improvements                   | 124,158,919             | 7,248,796             | 4,733,054             | 126,674,661             |
| Furniture and Equipment                                 | 597,097,977             | 42,579,162            | 27,100,279            | 612,576,860             |
| Library Resources                                       | 332,727,861             | 9,237,235             | 2,149,253             | 339,815,843             |
| Property Under Capital Lease and Leasehold Improvements | 16,887,002              | 5,198,443             | -                     | 22,085,445              |
| Computer Software                                       | 24,533,000              | -                     | -                     | 24,533,000              |
| Other Capital Assets                                    | 1,031,720               | -                     | 63,725                | 967,995                 |
| <b>Total Depreciable Capital Assets</b>                 | <b>3,677,994,117</b>    | <b>265,745,045</b>    | <b>56,538,894</b>     | <b>3,887,200,268</b>    |
| <b>Less Accumulated Depreciation:</b>                   |                         |                       |                       |                         |
| Buildings   | 1,168,759,690           | 82,844,962            | 6,995,163             | 1,244,609,489           |
| Infrastructure and Other Improvements                   | 74,262,573              | 4,112,742             | 60,783                | 78,314,532              |
| Furniture and Equipment                                 | 404,303,855             | 37,122,344            | 23,463,143            | 417,963,056             |
| Library Resources                                       | 282,619,185             | 11,443,036            | 2,149,253             | 291,912,968             |
| Property Under Capital Lease and Leasehold Improvements | 5,485,775               | 1,763,312             | (8,043)               | 7,257,130               |
| Computer Software                                       | 24,533,000              | -                     | -                     | 24,533,000              |
| Other Capital Assets                                    | 352,510                 | 197,849               | 10,350                | 540,009                 |
| <b>Total Accumulated Depreciation</b>                   | <b>1,960,316,588</b>    | <b>137,484,245</b>    | <b>32,670,649</b>     | <b>2,065,130,184</b>    |
| <b>Total Depreciable Capital Assets, Net</b>            | <b>1,717,677,529</b>    | <b>128,260,800</b>    | <b>23,868,245</b>     | <b>1,822,070,084</b>    |
| <b>Total Capital Assets, Net</b>                        | <b>\$ 1,863,959,005</b> | <b>\$ 261,501,620</b> | <b>\$ 233,209,176</b> | <b>\$ 1,892,251,449</b> |

## 8. Museum and Art Collections

The Florida Museum of Natural History, which is the official state-sponsored and chartered natural history museum and part of the University, maintains a depository of biological, paleontological, archaeological, and ethnographic materials. The Museum's collections contain over 40 million specimens and objects, more than half of which are catalogued, either individually or in lots. While many of the collections are undoubtedly quite valuable and irreplaceable, the University has not placed a dollar value on these items and, accordingly, the financial statements do not include these assets.

The Samuel P. Harn Museum of Art, which is also part of the University, maintains a collection of over 11,000 works of art. In accordance with professional practice among the nation's art museums, and in compliance with museum accreditation standards, the University does not place a dollar value on these items.

## 9. Deferred Outflows/Inflows 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 pension resources. 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. In addition, 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 pension resources were \$269,061,720 and deferred inflows of pension resources were \$7,329,620 for the year ended June 30, 2017. Note 13 includes a complete discussion of the University's defined benefit pension plans.

## 10. Unearned Revenue

Unearned Revenue includes amounts received prior to the end of the fiscal year but related to subsequent accounting periods. Unearned Revenue as of June 30, 2017, is summarized in Table 10.

**Table 10. Unearned Revenue**

| Description                   |                      |
|-------------------------------|----------------------|
| Grants and Contracts          | \$ 42,641,151        |
| Auxiliary Enterprises         | 14,908,322           |
| Student Tuition and Fees      | 6,264,860            |
| <b>Total Unearned Revenue</b> | <b>\$ 63,814,333</b> |

## 11. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2017, include capital improvement debt payable, loans and notes payable, installment purchase agreements payable, capital leases payable, compensated absences payable, other postemployment benefits payable, net pension liability, and other noncurrent liabilities. Long-term liability activity for the fiscal year ended June 30, 2017, is presented in Table 11.

**Table 11. Long-Term Liabilities**

| Description                             | Beginning Balance     | Additions             | Reductions            | Ending Balance          | Current Portion      |
|---|-----------------------|-----------------------|-----------------------|-------------------------|----------------------|
| <b>Capital Asset-Related Debt:</b>      |                       |                       |                       |                         |                      |
| Capital Improvement Debt Payable        | \$ 158,102,692        | \$ 20,116,200         | \$ 30,858,682         | \$ 147,360,210          | \$ 8,917,000         |
| Loans and Notes Payable                 | 10,664,597            | -                     | 551,318               | 10,113,279              | 572,131              |
| Installment Purchase Agreements Payable | 4,424,016             | 691,789               | 1,987,094             | 3,128,711               | 1,509,480            |
| Capital Leases Payable                  | 2,663,968             | -                     | 155,341               | 2,508,627               | 165,360              |
| <b>Total Capital Asset-Related Debt</b> | <b>175,855,273</b>    | <b>20,807,989</b>     | <b>33,552,435</b>     | <b>163,110,827</b>      | <b>11,163,971</b>    |
| <b>Other Long-Term Liabilities:</b>     |                       |                       |                       |                         |                      |
| Compensated Absences Payable            | 117,310,651           | 14,900,311            | 13,544,855            | 118,666,107             | 13,469,483           |
| Other Postemployment Benefits Payable   | 267,706,000           | 63,463,000            | 14,295,000            | 316,874,000             | -                    |
| Net Pension Liability                   | 353,745,495           | 359,395,020           | 148,095,790           | 565,044,725             | 5,281,910            |
| Other Noncurrent Liabilities            | 17,954,041            | -                     | 165,778               | 17,788,263              | -                    |
| <b>Total Long-Term Liabilities</b>      | <b>\$ 932,571,460</b> | <b>\$ 458,566,320</b> | <b>\$ 209,653,858</b> | <b>\$ 1,181,483,922</b> | <b>\$ 29,915,364</b> |



#### A. CAPITAL IMPROVEMENT DEBT PAYABLE

Capital improvement debt is issued to construct student housing facilities, parking garages, and various other University facilities. The outstanding debt for student housing and parking garages is secured by a pledge of a portion of housing rental revenues and

parking fees. The outstanding debt for the Clinical Translational Research Building is secured by a pledge of a portion of indirect cost revenues received by the College of Medicine. Pledged revenues are equal to the remaining debt service requirements to maturity for the capital improvement debt.

On January 6, 2017, the Florida Board of Governors, on behalf of the University, issued \$19,390,000 of University of Florida Dormitory Revenue Refunding Bonds, Series 2016A, with interest rates ranging from 3.000% to 5.000% to advance refund the \$20,705,000 principal amount of the University of Florida Housing Revenue Bonds, Series 2005A, maturing on or before June 30, 2030, with interest rates from 4.500% to 5.125%. The refunding bonds were used to purchase securities, which were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's Statement of Net Position. As a result of the refunding, the University reduced its debt service requirement by \$3,209,386 over the remaining life of the Series 2005A Bonds and obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$2,609,657 as of the Series 2016A issuance date.

A summary of the University's capital improvement debt payable at June 30, 2017, is presented in Table 12.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2017, are presented in Table 13.

**Table 12. Capital Improvement Debt Payable**

| Type and Series  | Amount of Original Issue | Amount Outstanding    |                      | Interest Rates  | Maturity Date |
|--|--------------------------|-----------------------|----------------------|-----------------|---------------|
|  |                          | Principal             | Interest             |                 |               |
| <b>Student Housing Auxiliary Debt:</b>                 |                          |                       |                      |                 |               |
| 2011A Housing  | \$ 16,350,000            | \$ 8,875,000          | \$ 1,775,106         | 3.000 to 4.000% | 2028          |
| 2012A Housing  | 26,500,000               | 21,275,000            | 5,813,144            | 3.000 to 4.000% | 2031          |
| 2013A Housing  | 24,805,000               | 21,230,000            | 7,122,119            | 3.000 to 5.000% | 2033          |
| 2016A Housing  | 19,390,000               | 18,375,000            | 5,677,800            | 3.000 to 5.000% | 2030          |
| <b>Total Student Housing Debt</b>                      | <b>87,045,000</b>        | <b>69,755,000</b>     | <b>20,388,169</b>    |                 |               |
| <b>Parking Garage Auxiliary Debt:</b>                  |                          |                       |                      |                 |               |
| 2007A Parking Garage                                   | 20,770,000               | 13,375,000            | 3,341,229            | 3.750 to 4.375% | 2028          |
| <b>Total Parking Garage Debt</b>                       | <b>20,770,000</b>        | <b>13,375,000</b>     | <b>3,341,229</b>     |                 |               |
| <b>Other University of Florida Revenue Bonds:</b>      |                          |                       |                      |                 |               |
| 2011 Clinical Translational Research Building          | 29,838,000               | 22,933,000            | 7,482,594            | 4.433%          | 2030          |
| 2013 Student Activity                                  | 41,540,000               | 36,265,000            | 15,463,488           | 4.000 to 5.000% | 2033          |
| <b>Total Other University of Florida Revenue Bonds</b> | <b>71,378,000</b>        | <b>59,198,000</b>     | <b>22,946,082</b>    |                 |               |
| Plus: Unamortized Premiums                             | -                        | 6,264,187             | -                    |                 |               |
| Less: Unamortized Discounts                            | -                        | (131,146)             | -                    |                 |               |
| Less: Unamortized Refunding Losses                     | -                        | (1,100,831)           | -                    |                 |               |
| <b>Total Capital Improvement Debt</b>                  | <b>\$ 179,193,000</b>    | <b>\$ 147,360,210</b> | <b>\$ 46,675,480</b> |                 |               |

**Table 13. Capital Improvement Debt Payable - Principal & Interest**

| Fiscal Year<br>Ending June 30         | Principal             | Interest             | Total                 |
|---------------------------------------|-----------------------|----------------------|-----------------------|
| 2018                                  | \$ 8,917,000          | \$ 5,997,731         | \$ 14,914,731         |
| 2019                                  | 9,302,000             | 5,593,825            | 14,895,825            |
| 2020                                  | 8,802,000             | 5,186,970            | 13,988,970            |
| 2021                                  | 9,202,000             | 4,788,174            | 13,990,174            |
| 2022                                  | 9,619,000             | 4,368,670            | 13,987,670            |
| 2023-2027                             | 51,102,000            | 15,348,200           | 66,450,200            |
| 2028-2032                             | 40,849,000            | 5,193,254            | 46,042,254            |
| 2033                                  | 4,535,000             | 198,656              | 4,733,656             |
| <b>Total Principal &amp; Interest</b> | <b>142,328,000</b>    | <b>46,675,480</b>    | <b>189,003,480</b>    |
| Plus: Unamortized Premiums            | 6,264,187             | -                    | 6,264,187             |
| Less: Unamortized Discounts           | (131,146)             | -                    | (131,146)             |
| Less: Unamortized Refunding Losses    | (1,100,831)           | -                    | (1,100,831)           |
| <b>Total</b>                          | <b>\$ 147,360,210</b> | <b>\$ 46,675,480</b> | <b>\$ 194,035,690</b> |

**B. LOANS AND NOTES PAYABLE**

On August 30, 2013, the University borrowed \$6,472,538 at an interest rate of 2.33% to finance the cost of energy savings contracts and renovation of the J. Wayne Reitz Union. The principal and interest cost is expected to be met by cost savings of the newer system. The note matures on August 31, 2029, and principal and interest payments are made annually. On June 17, 2013, the University borrowed \$5,000,000 at an interest rate of 3.58% for a similar renovation at Willard M. Fifield Hall. The note matures on November 1, 2033, and principal and interest payments are made annually. Annual requirements to amortize the two outstanding notes as of June 30, 2017, are presented in Table 14.

**Table 14. Loans and Notes Payable - Principal & Interest**

| Fiscal Year<br>Ending June 30 | Principal            | Interest            | Total                |
|-------------------------------|----------------------|---------------------|----------------------|
| 2018                          | \$ 572,131           | \$ 288,408          | \$ 860,539           |
| 2019                          | 597,825              | 272,820             | 870,645              |
| 2020                          | 569,277              | 256,427             | 825,704              |
| 2021                          | 593,591              | 241,174             | 834,765              |
| 2022                          | 618,927              | 225,171             | 844,098              |
| 2023-2027                     | 3,513,457            | 857,120             | 4,370,577            |
| 2028-2032                     | 2,794,041            | 371,882             | 3,165,923            |
| 2033-2034                     | 854,030              | 46,364              | 900,394              |
| <b>Total</b>                  | <b>\$ 10,113,279</b> | <b>\$ 2,559,366</b> | <b>\$ 12,672,645</b> |

**C. INSTALLMENT PURCHASE AGREEMENTS PAYABLE**

The University has entered into several installment purchase agreements for the purchase of equipment with original cost bases totaling \$7,531,743. The stated interest rates ranged from 0.00% to 5.62%. Future minimum payments remaining under installment purchase agreements as of June 30, 2017, are presented in Table 15.

**Table 15. Installment Purchase Agreements Payable - Principal & Interest**

| Fiscal Year<br>Ending June 30 | Principal           | Interest         | Total               |
|-------------------------------|---------------------|------------------|---------------------|
| 2018                          | \$ 1,509,480        | \$ 46,708        | \$ 1,556,188        |
| 2019                          | 1,117,563           | 18,098           | 1,135,661           |
| 2020                          | 454,068             | 3,418            | 457,486             |
| 2021                          | 47,600              | -                | 47,600              |
| <b>Total Minimum Payments</b> | <b>\$ 3,128,711</b> | <b>\$ 68,224</b> | <b>\$ 3,196,935</b> |

**D. CAPITAL LEASES PAYABLE**

The University entered into a lease agreement with the University of Florida Foundation, Inc. (the Foundation), a direct-support organization (component unit) of the University. Under the terms of the agreement, the University agreed to lease from the Foundation a 607-space parking garage located near the Health Science Center Administrative Offices for a period of thirty years beginning July 1, 1994. Lease payments of \$100,000 annually are due each July 1. Lease payments from the University to the Foundation were based on an original construction cost of \$3,000,000 and no interest. For reporting purposes, the lease is considered a capital lease under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The initial obligation was discounted at an imputed interest rate of 6.45% and was recorded at \$1,382,470. The asset, which is included in the Property Under Capital Lease and Leasehold Improvements, was recorded at a cost of \$3,000,000.

The University entered into a lease agreement with Shands. Under the terms of the agreement, the University agreed to lease from Shands an 800-space parking garage located near the Health Science Center Administrative Offices for a period of thirty years beginning March 1, 2000. Annual lease

payments of \$227,167 are due each May 1, which began on May 1, 2001. Lease payment amounts were based on an original construction cost of \$6,815,002 and no interest. For reporting purposes, the lease is considered a capital lease under GASB Statement No. 62. The initial obligation was discounted at an imputed interest rate of 6.45% and was recorded at \$2,981,939. The asset, which is included in the Property Under Capital Lease and Leasehold Improvements, was recorded at a cost of \$6,815,002. A summary of pertinent information related to the two capital leases is presented in Table 16.

**Table 16. Capital Leases Payable**

| Capital Leases             | Interest Rate | Original Balance    | Outstanding Balance |
|----------------------------|---------------|---------------------|---------------------|
| Garage No. 06 (607 spaces) | 6.45%         | \$ 1,382,470        | \$ 549,419          |
| Garage No. 10 (800 spaces) | 6.45%         | 2,981,939           | 1,959,208           |
| <b>Total</b>               |               | <b>\$ 4,364,409</b> | <b>\$ 2,508,627</b> |

Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2017, are presented in Table 17.

**Table 17. Capital Leases Payable - Principal & Interest**

| Fiscal Year Ending June 30 | Principal           | Interest            | Total               |
|----------------------------|---------------------|---------------------|---------------------|
| 2018                       | \$ 165,360          | \$ 161,806          | \$ 327,166          |
| 2019                       | 176,026             | 151,141             | 327,167             |
| 2020                       | 187,380             | 139,787             | 327,167             |
| 2021                       | 199,466             | 127,701             | 327,167             |
| 2022                       | 212,331             | 114,835             | 327,166             |
| 2023-2027                  | 965,865             | 369,969             | 1,335,834           |
| 2028-2030                  | 602,199             | 79,302              | 681,501             |
| <b>Total</b>               | <b>\$ 2,508,627</b> | <b>\$ 1,144,541</b> | <b>\$ 3,653,168</b> |

**E. 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 in accordance with its policy regarding leave payment upon separation from employment. 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, 2017, the estimated liability for compensated absences, which includes the University’s share of the Florida Retirement System and FICA contributions, totaled \$118,666,107. The current portion of the compensated absences liability is the amount expected to be paid in the coming fiscal year and is based on actual payouts over the last three years, calculated as a percentage of those years’ total compensated absences liability.

**F. OTHER POSTEMPLOYMENT BENEFITS PAYABLE**

The University follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits administered by the State Group Health Insurance Program.

■ **Plan Description** – 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, an agent multiple-employer, defined benefit plan (Plan). The University subsidizes the premium rates paid by retirees by allowing them to participate in the 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, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan, on average, than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the Plan information is not included in the report of a public employee retirement system or another entity.

■ **Funding Policy** – Plan benefits are pursuant to provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The State has not advance-funded Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. Premiums necessary for funding the Plan each year on a pay-as-you-go basis are established by the Governor’s recommended budget and the General Appropriations Act. For the 2016-17 fiscal year, 2,722 retirees received postemployment healthcare benefits. The University provided required contributions of \$14,295,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$18,840,000, which represents 1.7% of covered payroll.

■ **Annual OPEB Cost and Net OPEB Obligation** – The University’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters

of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. Table 18 shows the University's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and the changes in the University's net OPEB obligation.

**Table 18. Annual OPEB Cost and Net OPEB Obligation**

| Description  |                       |
|--|-----------------------|
| Normal Cost (service cost for one year)              | \$ 30,493,000         |
| Amortization of Unfunded Actuarial Accrued Liability | 29,744,000            |
| Interest on Normal Cost and Amortization             | 2,410,000             |
| <b>Annual Required Contribution</b>                  | <b>62,647,000</b>     |
| Interest on Net OPEB Obligation                      | 10,708,000            |
| Adjustment to Annual Required Contribution           | (9,892,000)           |
| <b>Annual OPEB Cost (Expense)</b>                    | <b>63,463,000</b>     |
| Contribution Toward the OPEB Cost                    | (14,295,000)          |
| <b>Increase in Net OPEB Obligation</b>               | <b>49,168,000</b>     |
| Net OPEB Obligation, Beginning of Year               | 267,706,000           |
| <b>Net OPEB Obligation, End of Year</b>              | <b>\$ 316,874,000</b> |

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2017, and for the two preceding fiscal years, are presented in Table 19.

**Table 19. Annual OPEB Cost, Percentage Contributed, and Net Obligation**

| Fiscal Year | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------|------------------|--|---------------------|
| 2014-15     | \$ 43,657,000    | 15.6%                                      | \$ 217,539,000      |
| 2015-16     | \$ 62,582,000    | 19.8%                                      | \$ 267,706,000      |
| 2016-17     | \$ 63,463,000    | 22.5%                                      | \$ 316,874,000      |

■ **Funded Status and Funding Progress** – As of July 1, 2016, the interim actuarial valuation date, the actuarial accrued liability for benefits was \$805,011,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$805,011,000 and a funded ratio of 0%. The covered payroll (annual payroll of active participating employees) was \$1,103,905,001 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 72.9%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts

determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the Notes to the Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

■ **Actuarial Methods and Assumptions** – Projections of benefits for financial reporting purposes are based on the substantive Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The University's interim OPEB actuarial valuation as of July 1, 2016, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2017, and the University's estimated 2016-17 fiscal year annual required contribution. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.00% rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.25% per year and an inflation rate of 3.00%. Healthcare trend rates were 7.50%, 8.80%, and 9.70% for the first three years, respectively, for all retirees in the Preferred Provider Organization (PPO) Plan and were 5.70%, 7.00%, and 7.80% for the first three years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates both grade down to an ultimate rate of 3.90% over 60 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis.

## 12. Interdepartmental Auxiliary Sales

Interdepartmental sales between auxiliary service departments and other institutional departments have been eliminated from expenses and revenues for reporting purposes. The interdepartmental transactions eliminated in the financial statement preparation totaled \$128,917,478 for the fiscal year ended June 30, 2017.

## 13. Retirement Plans

### A. DEFINED BENEFIT PENSION PLANS

The University follows GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, for reporting the employer's proportionate share of the net pension liabilities for the FRS and HIS defined benefit plans.

#### **General information about the Florida Retirement System and Health Insurance Subsidy Program**

The Florida Retirement System (FRS) was created in Chapter 121, Florida Statutes. The FRS was created to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program 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 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. 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 (SMSC) employed by the State as well as faculty and specified employees in the State university system.

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 Florida Retirement System 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 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' website ([www.dms.myflorida.com](http://www.dms.myflorida.com)).

The University's pension expense totaled \$84,273,835 for the 2016-17 fiscal year for both the FRS Pension Plan and HIS Program.

### 1. Florida Retirement System Defined Benefit Pension Plan

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

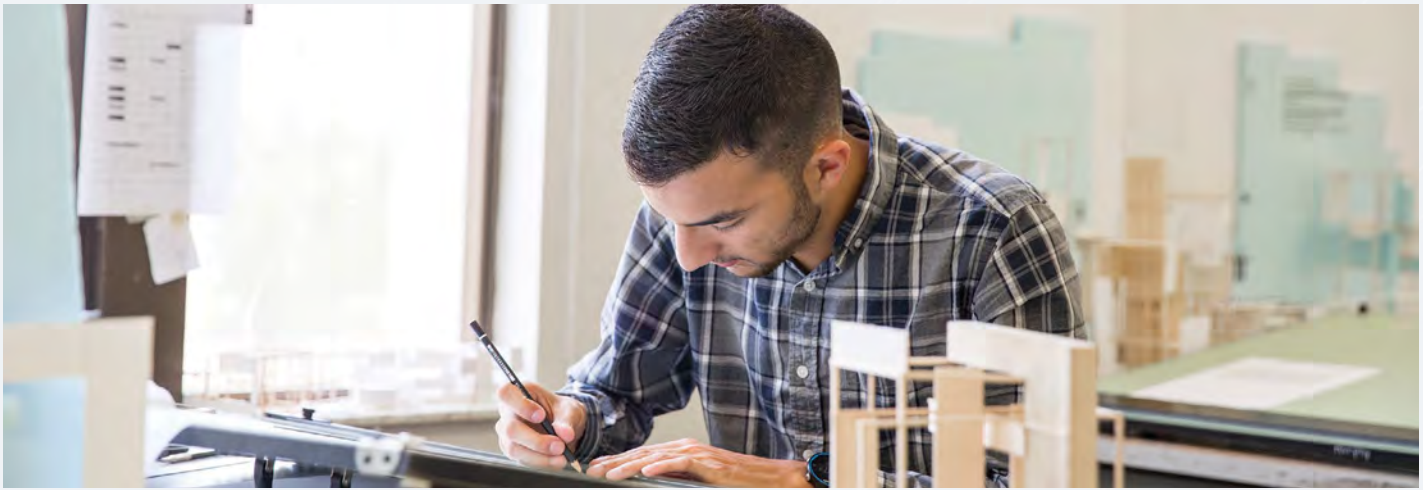
- Regular Class – Members of the FRS who do not qualify for membership in the other classes.
- Senior Management Service Class (SMSC) – Members in senior management level positions.
- Special Risk Class – Members who are employed as law enforcement officers and meet the criteria to qualify for this class.

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service, and employees enrolled in the Plan on or after July 1, 2011, vest at eight 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 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 service. All vested members enrolled in the Plan on or after July 1, 2011, 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 service. Employees enrolled in the Plan may include up to four years of 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.

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 service credit. 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 five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight 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. Table 20 shows the percentage value for each year of service credit earned.

As provided in Section 121.101, Florida Statutes, if the member was initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3.00% 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 3.00%, determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement, multiplied by 3.00%. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

**Table 20. Percentage Value of Service Credit Earned per Year**

| <b>Regular Class members initially enrolled before July 1, 2011</b>      |       |
|--|-------|
| 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% |
| <b>Regular Class members initially enrolled on or after July 1, 2011</b> |       |
| 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% |
| <b>Senior Management Service Class</b>                                   | 2.00% |
| <b>Special Risk Regular</b>  |       |
| Service on and after October 1, 1974                                     | 3.00% |

■ **Contributions** – The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2016-17 fiscal year are shown in Table 21. The University’s contributions to the Plan totaled \$39,948,341 for the fiscal year ended June 30, 2017.

■ **Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** – At June 30, 2017, the University reported a liability of \$393,639,963 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The University’s proportionate share of the net pension liability was based on the University’s 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the University’s proportionate share was 1.56%, which was a decrease of 0.03 from its proportionate share of 1.59% measured as of June 30, 2015.

**Table 21. Florida Retirement System Rates**

| <b>Class</b>  | <b>Percent of Gross Salary</b> |                     |
|---|--------------------------------|---------------------|
|   | <b>Employee</b>                | <b>Employer (A)</b> |
| Florida Retirement System, Regular  | 3.00%                          | 7.52%               |
| Florida Retirement System, Senior Management Service  | 3.00%                          | 21.77%              |
| Florida Retirement System, Special Risk   | 3.00%                          | 22.57%              |
| Deferred Retirement Option Program- Applicable to Members from all of the Above Classes   | 0.00%                          | 12.99%              |
| Florida Retirement System, Reemployed Retiree   | (B)                            | (B)                 |
| (A) Employer rates for each membership class include 1.66% for Health Insurance Subsidy. Also, employer rates, other than for DROP participants, include 0.06% for administrative costs of the Investment Plan. |                                |                     |
| (B) Contribution Rates are dependent upon retirement class in which reemployed.   |                                |                     |

For the year ended June 30, 2017, the University recognized pension expense of \$68,892,680. At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions as presented in Table 22.

**Table 22. Deferred Outflows and Inflows Related to Pensions - FRS**

| Description  | Deferred Outflows of Resources | Deferred Inflows of Resources | Recognition Period |
|--|--------------------------------|-------------------------------|--------------------|
| Differences Between Expected and Actual Experience   | \$ 30,140,103                  | \$ 3,665,054                  | 6.4 years          |
| Change of Assumptions  | 23,814,040                     | -                             | 6.4 years          |
| Net Difference Between Projected and Actual Earnings on Plan Investments                                       | 101,751,132                    | -                             | 5.0 years          |
| Changes in Proportion and Difference Between University Contributions and Proportionate Share of Contributions | 32,956,432                     | 3,274,169                     | 6.4 years          |
| University Contributions Subsequent to the Measurement Date  | 39,948,341                     | -                             | 1.0 year           |
| <b>Total</b>   | <b>\$ 228,610,048</b>          | <b>\$ 6,939,223</b>           |                    |

The deferred outflows of resources related to pensions totaling \$39,948,341, 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as shown in Table 23.

**Table 23. Recognition of Deferred Outflows and Inflows Related to Pensions - FRS**

| Fiscal Year Ending June 30 |                       |
|----------------------------|-----------------------|
| 2018                       | \$ 29,813,716         |
| 2019                       | 29,813,716            |
| 2020                       | 69,482,624            |
| 2021                       | 44,896,064            |
| 2022                       | 5,999,608             |
| Thereafter                 | 1,716,756             |
| <b>Total</b>               | <b>\$ 181,722,484</b> |

■ **Actuarial Assumptions** – The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, as presented in Table 24.

**Table 24. Actuarial Assumptions - FRS**

|                           |       |   |
|---------------------------|-------|---|
| Inflation                 | 2.60% |   |
| Salary Increases          | 3.25% | average, including inflation                                |
| Investment Rate of Return | 7.60% | net of pension Plan investment expense, including inflation |

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

The actual assumptions used in the July 1, 2016, 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 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 long-term expected rates of arithmetic return for each major asset class are summarized in Table 25.

**Table 25. Target Allocation and Expected Rate of Return**

| Asset Class            | Target Allocation | Long-Term Expected Rate of Return |
|------------------------|-------------------|-----------------------------------|
| Cash                   | 1.00%             | 3.00%                             |
| Fixed Income           | 18.00%            | 4.70%                             |
| Global Equity          | 53.00%            | 8.10%                             |
| Real Estate (Property) | 10.00%            | 6.40%                             |
| Private Equity         | 6.00%             | 11.50%                            |
| Strategic Investments  | 12.00%            | 6.10%                             |
| <b>Total</b>           | <b>100.00%</b>    |                                   |

■ **Discount Rate** – The discount rate used to measure the total pension liability was 7.60%. 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.

■ **Sensitivity of the University’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – Table 26 presents the University’s proportionate share of the net pension liability calculated using the discount rate of 7.60%, 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 (6.60%) or 1 percentage point higher (8.60%) than the current rate.

**Table 26. Sensitivity to Changes in Discount Rate - FRS**

|  | 1% Decrease<br>6.60%  | Current<br>Discount Rate<br>7.60% | 1% Increase<br>8.60%  |
|--|-----------------------|-----------------------------------|-----------------------|
| <b>University's Proportionate Share of the Net Pension Liability</b> | <u>\$ 724,717,823</u> | <u>\$ 393,639,963</u>             | <u>\$ 118,061,370</u> |

■ **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.

## 2. Health Insurance Subsidy Defined Benefit Pension Plan

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

■ **Benefits Provided** – For the fiscal year ended June 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement, multiplied by \$5. The payments are at least \$30, but not more than \$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, 2017, the contribution rate was 1.66% of payroll pursuant to Section 112.363, Florida Statutes. The University contributed 100% of its statutorily required contributions for the current and preceding three 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 \$7,783,620 for the fiscal year ended June 30, 2017.

■ **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions** – At June 30, 2017, the University reported a liability of \$171,404,762 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 one 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The University's proportionate share of the net pension liability was based on the University's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the University's proportionate share was 1.47%, which was an increase of 0.01 from its proportionate share of 1.46% measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the University recognized pension expense of \$15,381,155. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions as presented in Table 27.

**Table 27. Deferred Outflows and Inflows Related to Pensions - HIS**

| Description  | Deferred<br>Outflows<br>of Resources | Deferred<br>Inflows of<br>Resources | Recognition<br>Period |
|--|--------------------------------------|-------------------------------------|-----------------------|
| Differences Between Expected and Actual Experience   | \$ -                                 | \$ 390,397                          | 7.2 years             |
| Change of Assumptions  | 26,897,765                           | -                                   | 7.2 years             |
| Net Difference Between Projected and Actual Earnings on Plan Investments                                       | 86,666                               | -                                   | 5.0 years             |
| Changes in Proportion and Difference Between University Contributions and Proportionate Share of Contributions | 5,683,621                            | -                                   | 7.2 years             |
| University Contributions Subsequent to the Measurement Date  | <u>7,783,620</u>                     | <u>-</u>                            | 1.0 year              |
| <b>Total</b>   | <u>\$ 40,451,672</u>                 | <u>\$ 390,397</u>                   |                       |

The deferred outflows of resources related to pensions totaling \$7,783,620, 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as shown in Table 28.

**Table 28. Recognition of Deferred Outflows and Inflows Related to Pensions - HIS**

| Fiscal Year Ending June 30 |                      |
|----------------------------|----------------------|
| 2018                       | \$ 5,901,736         |
| 2019                       | 5,901,736            |
| 2020                       | 5,885,233            |
| 2021                       | 5,877,312            |
| 2022                       | 4,925,414            |
| Thereafter                 | 3,786,224            |
| <b>Total</b>               | <b>\$ 32,277,655</b> |

■ **Actuarial Assumptions** - The total pension liability at July 1, 2016, determined by applying update procedures to the actuarial valuations at July 1, 2015, used the following actuarial assumptions, applied to all periods included in the measurement, as presented in Table 29.

**Table 29. Actuarial Assumptions - HIS**

|                     |                                    |
|---------------------|------------------------------------|
| Inflation           | 2.60%                              |
| Salary Increases    | 3.25% average, including inflation |
| Municipal Bond Rate | 2.85%                              |

Mortality rates were based on the Generational RP-2000 with Projected 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 2.85%, which was a decrease of 0.95% from the prior measurement date. 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.

■ **Sensitivity of the University’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - Table

30 presents the University’s proportionate share of the net pension liability calculated using the discount rate of 2.85%, 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 (1.85%) or 1 percentage point higher (3.85%) than the current rate.

**Table 30. Sensitivity to Changes in Discount Rate - HIS**

|  | 1% Decrease<br>1.85%  | Current<br>Discount Rate<br>2.85% | 1% Increase<br>3.85%  |
|--|-----------------------|-----------------------------------|-----------------------|
| <b>University’s Proportionate Share of the Net Pension Liability</b> | <b>\$ 196,640,204</b> | <b>\$ 171,404,762</b>             | <b>\$ 150,460,723</b> |

■ **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 Systems Comprehensive Annual Financial Report.

**B. DEFINED CONTRIBUTION PENSION PLANS**

**1. FRS Investment Plan**

The State Board of Administration (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 of Florida 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 this program. 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 as the FRS defined benefit plan; these contributions are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). 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% of payroll and by forfeited benefits of plan members. Allocations to the Investment Plan member accounts during the 2016-17 fiscal year are presented in Table 31.

**Table 31. Florida Retirement System - Investment Plan Rates**

| Class  | Percent of<br>Gross<br>Compensation |
|--|-------------------------------------|
| Florida Retirement System, Regular                   | 6.30%                               |
| Florida Retirement System, Senior Management Service | 7.67%                               |
| Florida Retirement System, Special Risk              | 14.00%                              |

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings.

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. Non-vested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over his or her account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes these amounts, if any, would be immaterial to the University.

After termination and applying to receive benefits, the member may rollover 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 select 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.

There were 2,082 University participants during the 2016-17 fiscal year. The University's Investment Plan pension expense totaled \$7,332,662 for the fiscal year ended June 30, 2017.

## 2. 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 FRS for eight or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted

to the participating investment 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% of the participant's salary to the participant's account, 2.83% to cover the unfunded actuarial liability of the FRS pension plan, and 0.01% to cover administrative costs. Employees contribute 3.00% of their 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.

There were 6,503 University participants during the 2016-17 fiscal year. The University's contributions to the Program totaled \$38,894,385 and employee contributions totaled \$25,925,863 for the 2016-17 fiscal year.

## C. OTHER RETIREMENT PROGRAMS

### 1. U.S. Civil Service Retirement System

Some University employees participate in the U.S. Civil Service Retirement System. Sixteen employees were covered by the U.S. Civil Service Retirement System during the 2016-17 fiscal year. Employer contributions totaled \$115,436, and employee contributions totaled \$115,435 for the 2016-17 fiscal year. The University's participation in the Federal retirement system is not considered material by University management.

### 2. Institute of Food and Agricultural Sciences Supplemental Retirement

In 1984, the Florida Legislature enacted the Institute of Food and Agricultural Sciences Supplemental Retirement Act to provide a supplement to the monthly retirement benefit being paid under the Federal Civil Service Retirement System to retirees of the Institute of Food and Agricultural Sciences (IFAS) at the University of Florida. The supplement is designated for IFAS cooperative extension employees employed before July 1, 1983, who are not entitled to benefits from either a State-supported retirement system or social security based on their service with IFAS. It was intended to compensate these IFAS employees for the difference between their Civil Service benefit and the benefits an FRS member receives, which includes a social security benefit. No additional persons can become eligible for this supplement.

There were 14 University participants during the 2016-17 fiscal year. Required employer contributions made to the program totaled \$291,940. Employees do not contribute to this program.

## 14. Construction Commitments

The University's construction commitments at June 30, 2017, are presented in Table 32.

**Table 32. Construction Commitments**

| <b>Project Title</b>  | <b>Total Commitment</b> | <b>Completed to Date</b> | <b>Balance Committed</b> |
|---|-------------------------|--------------------------|--------------------------|
| NEXUS Engineering Addition  | \$ 55,188,000           | \$ 3,428,048             | \$ 51,759,952            |
| Innovation Hub, Phase II  | 17,200,000              | 8,313,624                | 8,886,376                |
| UF Health Proton Therapy Institute Gantry Expansion                           | 9,415,000               | 365,783                  | 9,049,217                |
| Career Resource Center Addition and Renovation                                | 7,698,170               | 520,070                  | 7,178,100                |
| Rabon Steam Boiler Design/Installation  | 7,095,707               | 103,810                  | 6,991,897                |
| Institute of Black Culture and Institute of Hispanic-Latino Cultures Facility | 6,500,000               | 95,770                   | 6,404,230                |
| Museum Rd Utility Infrastructure Replacement                                  | 6,200,000               | 82,700                   | 6,117,300                |
| Electrical Substation 2 - Cable and Switchgear Replacement                    | 5,410,000               | 210,933                  | 5,199,067                |
| Basic Sciences Building - Ground Floor Renovation                             | 5,227,687               | 4,196,258                | 1,031,429                |
| New Surplus Property Warehouse  | 2,804,977               | 514,982                  | 2,289,995                |
| Band Practice Field   | 2,712,800               | 12,800                   | 2,700,000                |
| Nature Coast Biological Station   | 2,379,920               | 1,829,891                | 550,029                  |
| Turlington Hall HVAC  | 2,164,464               | 398,181                  | 1,766,283                |
| Weil McCarty Chilled Water Interconnect                                       | 2,155,000               | 953,264                  | 1,201,736                |
| Renovate Ground Floor McCarty Hall  | 2,035,000               | 830,663                  | 1,204,337                |
| Bruton-Geer Hall Renovation   | 2,025,352               | 574,960                  | 1,450,392                |
| Florida Museum of Natural History Discovery Room                              | 2,020,000               | 1,726,806                | 293,194                  |
| Joint Use Library Storage Facility  | 2,019,466               | 1,516,636                | 502,830                  |
| Reitz Union Guardrail Replacement   | 2,000,000               | 207,309                  | 1,792,691                |
| Subtotal  | 142,251,543             | 25,882,488               | 116,369,055              |
| Projects Under \$2,000,000  | 80,342,556              | 27,476,544               | 52,866,012               |
| <b>Total</b>  | <b>\$ 222,594,099</b>   | <b>\$ 53,359,032</b>     | <b>\$ 169,235,067</b>    |

## 15. State Self-Insurance Programs

The University is exposed to various risks of loss related to torts; 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 2016-17 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 of losses 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 \$85 million for named windstorm and flood losses through February 14, 2017, and increased to \$92.5 million starting February 15, 2017. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million through February 14, 2017, and increased to \$225 million starting February 15, 2017; 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. There have been no significant reductions in insurance coverage from the prior year coverage. Settlements have not exceeded insurance coverage during the past three fiscal years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain healthcare services through participation in the State's 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. University Self-Insurance Programs

The University of Florida Self-Insurance Program (the Program) and the University of Florida Healthcare Education Insurance Company (HEIC), which are included in the University's reporting entity as discretely presented component units (see Note 1), provide general and professional liability protection for the University of Florida Board of Trustees (UFBOT) on behalf of the six health colleges of the JHMHC, the College of Veterinary Medicine teaching hospitals, the Student Health Care Center, direct-support organizations, and their employees and agents. Hospital professional liability protection, including general liability, is provided to Shands Teaching Hospital and Clinics, Inc., Shands Jacksonville Medical Center, Inc. (a subsidiary of Shands Jacksonville HealthCare, Inc.-Shands Jacksonville), other entities statutorily authorized to participate in the Program, and their employees and agents. The Program and HEIC are distinct from and entirely independent of the self-insurance programs administered by the State described in Note 15.

The UFBOT and other immune entities are protected for losses which are subject to Section 768.28, Florida Statutes, including legislative claims bills, that in combination with the waiver of immunity limits described in Section 768.28, Florida Statutes, do not exceed \$1 million per claim and, for voluntary settlements, \$2 million per claim. For those protected entities not subject to Section 768.28, Florida Statutes, the Program provides \$2 million per claim. The per claim limit of liability protection for the participants does not exceed \$2 million per claim in the event more than one protected entity is involved in the same claim or action.

HEIC provides coverage for claims that are in excess of the protections provided by the Program, at limits of \$4 million per legislative claims bill coverage for participants subject to Section 768.28, Florida Statutes.

## 17. Litigation and Contingencies

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

The U.S. Agency for International Development (USAID), through its Lima, Peru office, is in the process of conducting a financial review of a Trilateral Cooperative Agreement that was awarded to the University of Florida in 2011 and terminated in 2016. Concurrently, the Office of Inspector General for USAID is reviewing the activities involved in the project, with a focus on the conduct of one or two individuals. At this time, the University is not able to make definitive determinations about any potential outcome of these reviews.

## 18. Functional Distribution of Operating Expenses

The functional classification of operating expenses (instruction, research, etc.) is assigned to each individual transaction based on the nature of the activity. The operating expenses on the Statement of Revenues, Expenses, and Changes in Net Position are presented by natural classification. Table 33 presents those same expenses in functional classification as recommended by NACUBO.

**Table 33. Functional Expenses**

| Functional Classification                   |                         |
|---|-------------------------|
| Instruction                                 | \$ 715,501,410          |
| Public Service                              | 647,919,858             |
| Research                                    | 635,193,020             |
| Academic Support                            | 204,659,024             |
| Institutional Support                       | 152,880,147             |
| Depreciation                                | 137,484,244             |
| Auxiliary Enterprises                       | 126,594,027             |
| Operation and Maintenance of Plant          | 121,572,923             |
| Scholarships, Fellowships, and Waivers, Net | 106,890,625             |
| Student Services                            | 42,061,066              |
| <b>Total Operating Expenses</b>             | <b>\$ 2,890,756,344</b> |

## 19. Component Units

The University's financial statements include 17 discretely presented component units as discussed in Note 1. These component units comprise 100% of the transactions and account balances of the aggregate discretely presented component units columns of the financial statements. Summary financial information from the most recently available audited financial statements for these component units is presented on the following pages in Tables 34, 35, and 36.

## 20. Segment Information

A segment is defined as an identifiable activity (or grouping of activities) that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's related revenues, expenses, gains, losses, assets, and liabilities are required to be accounted for separately. Transportation and Parking Services provides the University with safe and adequate parking facilities. Several parking garages have been constructed from the proceeds of revenue-backed debt instruments. The Department of Housing and Residence Education provides safe and affordable living space for students of the University of Florida. Capital improvement debt has been issued over the years to provide funding for the construction of facilities to house students of the University. A summary of the financial activity for these segments is presented in Table 37.

**Table 34. Direct-Support Organizations** (amounts expressed in thousands)

|  | <b>University of<br/>Florida<br/>Foundation, Inc.</b> | <b>The University<br/>Athletic<br/>Association, Inc.</b> | <b>University of Florida<br/>Research<br/>Foundation, Inc.</b> | <b>GatorCare Health<br/>Management<br/>Corporation</b> |
|--|---|--|--|--|
| <b>CONDENSED STATEMENT OF NET POSITION</b>   |   |  |  |  |
| Assets   |   |  |  |  |
| Due from Component Units/University  | \$ 26,050   | \$ 5,485   | \$ 110,200   | \$ 158   |
| Other Current Assets   | 163,916   | 70,261   | 8,890  | 21,559   |
| Capital Assets, Net  | 57,338  | 188,270  | -  | 9  |
| Other Noncurrent Assets  | 1,673,048   | 54,373   | -  | 35,606   |
| <b>Total Assets</b>  | <b>1,920,352</b>                                      | <b>318,389</b>   | <b>119,090</b>   | <b>57,332</b>  |
| Liabilities  |   |  |  |  |
| Due to Component Units/University  | 42,805  | -  | 15,324   | 24,393   |
| Other Current Liabilities  | 7,353   | 80,336   | 5,847  | 18,822   |
| Noncurrent Liabilities   | 32,655  | 84,681   | -  | 13,520   |
| <b>Total Liabilities</b>   | <b>82,813</b>   | <b>165,017</b>   | <b>21,171</b>  | <b>56,735</b>  |
| Net Position   |   |  |  |  |
| Net Investment in Capital Assets   | -   | 101,855  | -  | 9  |
| Restricted-Nonexpendable Endowment   | 1,345,466   | -  | -  | -  |
| Restricted-Expendable Endowment  | 355,998   | -  | -  | -  |
| Restricted-Expendable Other  | 131,912   | 916  | -  | -  |
| Unrestricted   | 4,163   | 50,601   | 97,919   | 588  |
| <b>Total Net Position</b>  | <b>\$ 1,837,539</b>                                   | <b>\$ 153,372</b>  | <b>\$ 97,919</b>   | <b>\$ 597</b>  |
| <b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>      |   |  |  |  |
| Operating Revenues   | \$ 95,601   | \$ 135,060   | \$ 33,161  | \$ 1,418   |
| Operating Expenses   | (173,467)   | (133,948)  | (33,717)   | (1,246)  |
| Operating Income (Loss)  | (77,866)  | 1,112  | (556)  | 172  |
| Nonoperating Revenues (Expenses) and Other Revenues,<br>Expenses, Gains, or Losses |   |  |  |  |
| Investment Income (Loss), Net of Expenses  | 172,436   | 7,486  | 2  | (39)   |
| Net Increase (Decrease) in the Fair Value of Investments                           | 1,399   | -  | 35   | -  |
| Other Nonoperating Revenues  | -   | 8,510  | 2,300  | -  |
| Other Nonoperating Expenses  | 4,472   | (21,188)   | -  | -  |
| Addition to Permanent Endowments   | 76,864  | -  | -  | -  |
| <b>Change in Net Position</b>  | <b>177,305</b>  | <b>(4,080)</b>   | <b>1,781</b>   | <b>133</b>   |
| Net Position, Beginning of Year  | 1,700,161   | 157,452  | 96,138   | 464  |
| Adjustments to Beginning Net Position (Note 2)                                     | (39,927)  | -  | -  | -  |
| Net Position, Beginning of Year, as Restated                                       | 1,660,234   | 157,452  | 96,138   | 464  |
| <b>Net Position, End of Year</b>   | <b>\$ 1,837,539</b>                                   | <b>\$ 153,372</b>  | <b>\$ 97,919</b>   | <b>\$ 597</b>  |



| Florida<br>Foundation Seed<br>Producers, Inc. | University of Florida<br>Development<br>Corporation | Gator<br>Boosters,<br>Inc. | Citrus Research<br>and Development<br>Foundation, Inc. | Total Direct-<br>Support<br>Organizations |
|---|---|----------------------------|--|---|
| \$ -  | \$ -  | \$ 4,054                   | \$ -   | \$ 145,947                                |
| 12,162  | 2,770   | 2,217                      | 5,859  | 287,634                                   |
| 2,806   | 10,285  | 14                         | -  | 258,722                                   |
| -   | -   | 468                        | -  | 1,763,495                                 |
| <u>14,968</u>                                 | <u>13,055</u>                                       | <u>6,753</u>               | <u>5,859</u>   | <u>2,455,798</u>                          |
| -   | -   | 5,485                      | -  | 88,007                                    |
| 7,206   | 265   | 156                        | 1,125  | 121,110                                   |
| -   | -   | 92                         | -  | 130,948                                   |
| <u>7,206</u>                                  | <u>265</u>  | <u>5,733</u>               | <u>1,125</u>   | <u>340,065</u>                            |
| 2,806   | 10,285  | 14                         | -  | 114,969                                   |
| -   | -   | 468                        | -  | 1,345,934                                 |
| -   | -   | -                          | -  | 355,998                                   |
| -   | -   | -                          | 4,734  | 137,562                                   |
| <u>4,956</u>                                  | <u>2,505</u>  | <u>538</u>                 | <u>-</u>   | <u>161,270</u>                            |
| <b><u>\$ 7,762</u></b>                        | <b><u>\$ 12,790</u></b>                             | <b><u>\$ 1,020</u></b>     | <b><u>\$ 4,734</u></b>                                 | <b><u>\$ 2,115,733</u></b>                |
| \$ 1,792                                      | \$ 1,456  | \$ 40,607                  | \$ 3,427   | \$ 312,522                                |
| <u>(648)</u>                                  | <u>(2,186)</u>                                      | <u>(3,299)</u>             | <u>(11,791)</u>  | <u>(360,302)</u>                          |
| 1,144   | (730)   | 37,308                     | (8,364)  | (47,780)                                  |
| 23  | -   | 1,580                      | 33   | 181,521                                   |
| -   | -   | (32)                       | -  | 1,402                                     |
| 14  | 1,345   | -                          | 8,000  | 20,169                                    |
| -   | -   | (38,861)                   | -  | (55,577)                                  |
| -   | -   | 4                          | -  | 76,868                                    |
| <u>1,181</u>                                  | <u>615</u>  | <u>(1)</u>                 | <u>(331)</u>   | <u>176,603</u>                            |
| -   | 12,175  | 1,021                      | 5,065  | 1,972,476                                 |
| <u>6,581</u>                                  | <u>-</u>  | <u>-</u>                   | <u>-</u>   | <u>(33,346)</u>                           |
| <u>6,581</u>                                  | <u>12,175</u>                                       | <u>1,021</u>               | <u>5,065</u>   | <u>1,939,130</u>                          |
| <b><u>\$ 7,762</u></b>                        | <b><u>\$ 12,790</u></b>                             | <b><u>\$ 1,020</u></b>     | <b><u>\$ 4,734</u></b>                                 | <b><u>\$ 2,115,733</u></b>                |

**Table 35. Health Science Center Affiliates** (amounts expressed in thousands)

|   | <b>Florida<br/>Clinical<br/>Practice<br/>Association,<br/>Inc.</b> | <b>University<br/>of Florida<br/>Jacksonville<br/>Physicians,<br/>Inc.</b> | <b>Faculty<br/>Associates,<br/>Inc.</b> | <b>Florida<br/>Veterinary<br/>Medicine<br/>Faculty<br/>Association,<br/>Inc.</b> | <b>University of<br/>Florida College<br/>of Pharmacy<br/>Faculty<br/>Practice<br/>Association,<br/>Inc.</b> | <b>Total<br/>Health<br/>Science<br/>Center<br/>Affiliates</b> |
|---|--|--|---|--|---|---|
| <b>CONDENSED STATEMENT OF NET POSITION</b>                                    |  |  |   |  |   |   |
| Assets  |  |  |   |  |   |   |
| Due from Component Units/University   | \$ 27,542  | \$ -   | \$ 1,500                                | \$ 8,605   | \$ 1,613  | \$ 39,260   |
| Other Current Assets  | 102,598  | 73,889   | 14,620                                  | 2,310  | 2,911   | 196,328   |
| Capital Assets, Net   | 48,112   | 17,831   | -                                       | -  | -   | 65,943  |
| Other Noncurrent Assets   | 15,726   | -  | -                                       | -  | -   | 15,726  |
| <b>Total Assets</b>   | <b>193,978</b>   | <b>91,720</b>  | <b>16,120</b>                           | <b>10,915</b>  | <b>4,524</b>  | <b>317,257</b>  |
| Liabilities   |  |  |   |  |   |   |
| Due to Component Units/University   | 6,967  | 885  | -                                       | -  | -   | 7,852   |
| Other Current Liabilities   | 7,715  | 20,602   | 243                                     | 1,477  | 1,404   | 31,441  |
| Noncurrent Liabilities  | 33,214   | 3,655  | -                                       | -  | -   | 36,869  |
| <b>Total Liabilities</b>  | <b>47,896</b>  | <b>25,142</b>  | <b>243</b>                              | <b>1,477</b>   | <b>1,404</b>  | <b>76,162</b>   |
| Net Position  |  |  |   |  |   |   |
| Net Investment in Capital Assets  | 13,508   | 13,356   | -                                       | -  | -   | 26,864  |
| Unrestricted  | 132,574  | 53,222   | 15,877                                  | 9,438  | 3,120   | 214,231   |
| <b>Total Net Position</b>   | <b>\$ 146,082</b>  | <b>\$ 66,578</b>   | <b>\$ 15,877</b>                        | <b>\$ 9,438</b>  | <b>\$ 3,120</b>   | <b>\$ 241,095</b>   |
| <b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b> |  |  |   |  |   |   |
| Operating Revenues  | \$ 611,961   | \$ 251,839   | \$ 19,887                               | \$ 10,875  | \$ 10,789   | \$ 905,351  |
| Operating Expenses  | (167,263)  | (131,913)  | (333)                                   | (589)  | (9,741)   | (309,839)   |
| Operating Income  | 444,698  | 119,926  | 19,554                                  | 10,286   | 1,048   | 595,512   |
| Nonoperating Revenues (Expenses)  |  |  |   |  |   |   |
| Investment Income (Loss), Net of Expenses                                     | (68)   | 182  | 3                                       | -  | -   | 117   |
| Net Increase in the Fair Value of Investments                                 | 1,045  | -  | -                                       | -  | -   | 1,045   |
| Other Nonoperating Revenue  | 9  | 5,091  | -                                       | -  | -   | 5,100   |
| Other Nonoperating Expenses   | (446,012)  | (118,126)  | (16,175)                                | (10,285)   | (1,086)   | (591,684)   |
| Change in Net Position  | (328)  | 7,073  | 3,382                                   | 1  | (38)  | 10,090  |
| Net Position, Beginning of Year   | 146,410  | 59,505   | 12,495                                  | 9,437  | -   | 227,847   |
| Adjustments to Beginning Net Position (Note 2)                                | -  | -  | -                                       | -  | 3,158   | 3,158   |
| Net Position, Beginning of Year, as Restated                                  | 146,410  | 59,505   | 12,495                                  | 9,437  | 3,158   | 231,005   |
| <b>Net Position, End of Year</b>  | <b>\$ 146,082</b>  | <b>\$ 66,578</b>   | <b>\$ 15,877</b>                        | <b>\$ 9,438</b>  | <b>\$ 3,120</b>   | <b>\$ 241,095</b>   |

**Table 36. Shands Hospital and Others** (amounts expressed in thousands)

|   | <b>Shands Teaching<br/>Hospital<br/>&amp; Clinics, Inc.</b> | <b>Shands<br/>Jacksonville<br/>HealthCare, Inc.</b> | <b>University of<br/>Florida<br/>Self-Insurance<br/>Program</b> | <b>University<br/>of Florida<br/>Healthcare<br/>Education<br/>Insurance<br/>Company</b> | <b>Total<br/>Shands<br/>Hospital<br/>and Others</b> |
|---|---|---|---|---|---|
| <b>CONDENSED STATEMENT OF NET POSITION</b>                                    |   |   |   |   |   |
| Assets  |   |   |   |   |   |
| Due from Component Units/University   | \$ 31,907   | \$ 9,953  | \$ -  | \$ 54,032   | \$ 95,892   |
| Other Current Assets  | 514,090   | 236,875   | 202,625   | 1,832   | 955,422   |
| Capital Assets, Net   | 981,161   | 265,681   | -   | -   | 1,246,842   |
| Other Noncurrent Assets   | <u>634,324</u>  | <u>46,786</u>                                       | <u>-</u>  | <u>-</u>  | <u>681,110</u>                                      |
| Total Assets  | <u>2,161,482</u>  | <u>559,295</u>                                      | <u>202,625</u>  | <u>55,864</u>   | <u>2,979,266</u>                                    |
| Deferred Outflows of Resources  |   |   |   |   |   |
| Deferred Amounts Related to Pensions  | 88,333  | 6,702   | -   | -   | 95,035  |
| Accumulated Decrease in Fair Value<br>of Interest Rate Swap Agreements        | 49,013  | 215   | -   | -   | 49,228  |
| Losses on Debt Refunding  | <u>376</u>  | <u>-</u>  | <u>-</u>  | <u>-</u>  | <u>376</u>  |
| Total Assets and Deferred Outflows of Resources                               | <u>2,299,204</u>  | <u>566,212</u>                                      | <u>202,625</u>  | <u>55,864</u>   | <u>3,123,905</u>                                    |
| Liabilities   |   |   |   |   |   |
| Due to Component Units/University   | 7,700   | 182   | 54,031  | -   | 61,913  |
| Other Current Liabilities   | 290,750   | 107,206   | 6,676   | 9   | 404,641   |
| Noncurrent Liabilities  | <u>919,235</u>  | <u>260,799</u>                                      | <u>24,791</u>   | <u>2,725</u>  | <u>1,207,550</u>                                    |
| Total Liabilities   | <u>1,217,685</u>  | <u>368,187</u>                                      | <u>85,498</u>   | <u>2,734</u>  | <u>1,674,104</u>                                    |
| Deferred Inflows of Resources   |   |   |   |   |   |
| Deferred Amounts Related to Pensions  | 26,632  | 2,496   | -   | -   | 29,128  |
| Accumulated Increase in Fair Value<br>of Interest Rate Swap Agreements        | -   | 4,171   | -   | -   | 4,171   |
| Gains on Debt Refunding   | <u>2,732</u>  | <u>-</u>  | <u>-</u>  | <u>-</u>  | <u>2,732</u>  |
| Total Liabilities and Deferred Inflows of Resources                           | <u>1,247,049</u>  | <u>374,854</u>                                      | <u>85,498</u>   | <u>2,734</u>  | <u>1,710,135</u>                                    |
| Net Position  |   |   |   |   |   |
| Net Investment in Capital Assets  | 136,616   | 51,330  | -   | -   | 187,946   |
| Restricted-Nonexpendable Endowment  | 253   | -   | -   | -   | 253   |
| Restricted-Expendable Endowment   | 9,038   | 4,123   | -   | -   | 13,161  |
| Other Restricted Net Position   | -   | -   | 117,127   | 53,130  | 170,257   |
| Unrestricted  | <u>906,248</u>  | <u>135,905</u>                                      | <u>-</u>  | <u>-</u>  | <u>1,042,153</u>                                    |
| <b>Total Net Position</b>   | <b><u>\$ 1,052,155</u></b>                                  | <b><u>\$ 191,358</u></b>                            | <b><u>\$ 117,127</u></b>  | <b><u>\$ 53,130</u></b>   | <b><u>\$ 1,413,770</u></b>                          |
| <b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b> |   |   |   |   |   |
| Operating Revenues  | \$ 1,424,591  | \$ 696,408  | \$ 9,024  | \$ 465  | \$ 2,130,488  |
| Operating Expenses  | <u>(1,271,463)</u>  | <u>(656,586)</u>                                    | <u>(8,972)</u>  | <u>(269)</u>  | <u>(1,937,290)</u>                                  |
| Operating Income  | 153,128   | 39,822  | 52  | 196   | 193,198   |
| Nonoperating Revenues (Expenses)  |   |   |   |   |   |
| Investment Income, Net of Expenses  | 16,097  | 512   | 10,552  | 2,828   | 29,989  |
| Net Increase in the Fair Value of Investments                                 | 20,661  | -   | -   | -   | 20,661  |
| Other Nonoperating Revenues   | 14,525  | 1,114   | -   | -   | 15,639  |
| Other Nonoperating Expenses   | <u>(88,821)</u>   | <u>(41,446)</u>                                     | <u>-</u>  | <u>-</u>  | <u>(130,267)</u>                                    |
| Change in Net Position  | <u>115,590</u>  | <u>2</u>  | <u>10,604</u>   | <u>3,024</u>  | <u>129,220</u>                                      |
| Net Position, Beginning of Year   | <u>936,565</u>  | <u>191,356</u>                                      | <u>106,523</u>  | <u>50,106</u>   | <u>1,284,550</u>                                    |
| <b>Net Position, End of Year</b>  | <b><u>\$ 1,052,155</u></b>                                  | <b><u>\$ 191,358</u></b>                            | <b><u>\$ 117,127</u></b>  | <b><u>\$ 53,130</u></b>   | <b><u>\$ 1,413,770</u></b>                          |

**Table 37. SEGMENT INFORMATION**

|   | <b>Transportation and<br/>Parking Services</b> | <b>Department<br/>of Housing<br/>and Residence<br/>Education</b> |
|---|--|--|
| <b>CONDENSED STATEMENT OF NET POSITION</b>                                    |  |  |
| Assets  |  |  |
| Current Assets  | \$ 12,104,150                                  | \$ 4,901,167   |
| Capital Assets, Net   | 33,579,450                                     | 128,899,605  |
| Other Noncurrent Assets   | <u>8,052,107</u>                               | <u>826,805</u>   |
| Total Assets  | <u>53,735,707</u>                              | <u>134,627,577</u>   |
| Liabilities   |  |  |
| Current Liabilities   | 3,906,497                                      | 12,134,361   |
| Noncurrent Liabilities  | <u>14,790,432</u>                              | <u>62,954,778</u>  |
| Total Liabilities   | <u>18,696,929</u>                              | <u>75,089,139</u>  |
| Net Position  |  |  |
| Net Investment in Capital Assets  | 18,623,658                                     | 62,000,265   |
| Restricted  | 8,023,121                                      | 360,852  |
| Unrestricted  | <u>8,391,999</u>                               | <u>(2,822,679)</u>   |
| <b>Total Net Position</b>   | <b><u>\$ 35,038,778</u></b>                    | <b><u>\$ 59,538,438</u></b>                                      |
| <b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b> |  |  |
| Operating Revenues (Expenses)   |  |  |
| Operating Revenues  | \$ 26,860,803                                  | \$ 57,786,730  |
| Depreciation Expense  | (2,404,100)                                    | (7,372,481)  |
| Other Operating Expenses  | <u>(19,961,539)</u>                            | <u>(44,640,313)</u>  |
| Operating Income  | <u>4,495,164</u>                               | <u>5,773,936</u>   |
| Nonoperating Revenues (Expenses)  |  |  |
| Investment Income   | 24,332   | 18,690   |
| Interest on Capital Asset-Related Debt  | (857,430)                                      | (3,057,720)  |
| Other Nonoperating Expenses   | <u>(4,671,818)</u>                             | <u>(9,091,951)</u>   |
| Net Nonoperating Revenues (Expenses)  | <u>(5,504,916)</u>                             | <u>(12,130,981)</u>  |
| Change in Net Position  | (1,009,752)                                    | (6,357,045)  |
| Net Position, Beginning of Year   | <u>36,048,530</u>                              | <u>65,895,483</u>  |
| <b>Net Position, End of Year</b>  | <b><u>\$ 35,038,778</u></b>                    | <b><u>\$ 59,538,438</u></b>                                      |
| <b>CONDENSED STATEMENT OF CASH FLOWS</b>                                      |  |  |
| Net Cash Provided (Used) by   |  |  |
| Operating Activities  | \$ 6,539,805                                   | \$ 12,334,091  |
| Noncapital Financing Activities   | (3,167,652)                                    | (5,218,392)  |
| Capital and Related Financing Activities                                      | (5,298,707)                                    | (9,490,249)  |
| Investing Activities  | <u>1,926,554</u>                               | <u>198,131</u>   |
| Net Decrease in Cash and Cash Equivalents                                     | -  | (2,176,419)  |
| Cash and Cash Equivalents, Beginning of Year                                  | <u>-</u>                                       | <u>6,334,315</u>   |
| <b>Cash and Cash Equivalents, End of Year</b>                                 | <b><u>\$ -</u></b>                             | <b><u>\$ 4,157,896</u></b>                                       |



# OTHER REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**Schedule of Funding Progress - Other Postemployment Benefits Plan (amounts in thousands)**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) |            | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|-----------------------------------|------------|---------------------------|--------------------|---------------------|---|
|                          |                               | (1)                               | (b)        |                           |                    |                     |   |
| 7/1/2011                 | \$ -                          | \$ 643,742                        | \$ 643,742 | 0%                        | \$ 996,686         | 65%                 |   |
| 7/1/2013                 | \$ -                          | \$ 663,395                        | \$ 663,395 | 0%                        | \$ 1,072,984       | 62%                 |   |
| 7/1/2015 (2)             | \$ -                          | \$ 782,069                        | \$ 782,069 | 0%                        | \$ 1,120,516       | 70%                 |   |

**Notes:**

- (1) The entry age cost actuarial method is used by the University.
- (2) The July 1, 2015, unfunded actuarial liability of \$782.1 million was higher than the July 1, 2013, liability of \$663.4 million due to several factors, including an increased implied subsidy, updated trend rate assumptions, and demographic changes.

**Schedule of University's Proportionate Share of the Net Pension Liability - Florida Retirement System (FRS) Defined Benefit Pension Plan**

|  | 2016 (1) (4)     | 2015 (1) (2)     | 2014 (1) (3)     | 2013 (1)         |
|--|------------------|------------------|------------------|------------------|
| University's Proportion of the FRS Net Pension Liability   | 1.56%            | 1.59%            | 1.52%            | 1.23%            |
| University's Proportionate Share of the FRS Net Pension Liability                                    | \$ 393,639,963   | \$ 204,919,550   | \$ 92,657,576    | \$ 212,307,108   |
| University's Covered Payroll (5)   | \$ 1,120,515,686 | \$ 1,066,940,109 | \$ 1,024,891,028 | \$ 1,053,555,913 |
| University's Proportionate Share of the FRS Net Pension Liability as a Percentage of Covered Payroll | 35.13%           | 19.21%           | 9.04%            | 20.15%           |
| FRS Plan Fiduciary Net Position as a Percentage of the FRS Total Pension Liability                   | 84.88%           | 92.00%           | 96.09%           | 88.54%           |

**Notes:**

- (1) The amounts presented for each fiscal year were determined as of June 30.
- (2) There were no changes in assumptions from the prior fiscal year.
- (3) Changes of assumptions - As of June 30, 2014, the inflation rate assumption was decreased from 3.00% to 2.60%, the real payroll growth assumption was decreased from 1.00% to 0.65%, and the overall payroll growth rate assumption was decreased from 4.00% to 3.25%. The long-term expected rate of return decreased from 7.75% to 7.65%.
- (4) Changes of assumptions - As of June 30, 2016, the long-term expected rate of return decreased from 7.65% to 7.60%.
- (5) Covered payroll includes active employees who are members of the following plans: defined benefit, Investment Plan, State University Optional Retirement Program, and 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 (FRS) Defined Benefit Pension Plan**

|  | <u>2017 (1)</u>     | <u>2016 (1)</u>     | <u>2015 (1)</u>     | <u>2014 (1)</u>     |
|--|---------------------|---------------------|---------------------|---------------------|
| Contractually Required FRS Contribution                                      | \$ 39,948,341       | \$ 38,017,855       | \$ 38,680,557       | \$ 33,264,015       |
| FRS Contributions in Relation to the Contractually Required FRS Contribution | <u>(39,948,341)</u> | <u>(38,017,855)</u> | <u>(38,680,557)</u> | <u>(33,264,015)</u> |
| Contribution Deficiency (Excess)   | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>         | <u>\$ -</u>         |
| University's Covered Payroll (2)   | \$ 1,103,905,001    | \$ 1,120,515,686    | \$ 1,066,940,109    | \$ 1,024,891,028    |
| FRS Contributions as a Percentage of Covered Payroll                         | 3.62%               | 3.39%               | 3.63%               | 3.25%               |

**Notes:**

- (1) The amounts presented for each fiscal year were determined as of June 30.
- (2) Covered payroll includes active employees who are members of the following plans: defined benefit, Investment Plan, State University Optional Retirement Program, and 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's Proportionate Share of the Net Pension Liability - Health Insurance Subsidy (HIS) Defined Benefit Pension Plan**

|  | <u>2016 (1) (4)</u> | <u>2015 (1) (3)</u> | <u>2014 (1) (2)</u> | <u>2013 (1)</u> |
|--|---------------------|---------------------|---------------------|-----------------|
| University's Proportion of the HIS Net Pension Liability   | 1.47%               | 1.46%               | 1.41%               | 1.38%           |
| University's Proportionate Share of the HIS Net Pension Liability                                    | \$ 171,404,762      | \$ 148,825,945      | \$ 131,969,507      | \$ 120,063,826  |
| University's Covered Payroll (5)   | \$ 435,925,174      | \$ 413,619,247      | \$ 396,471,815      | \$ 382,427,384  |
| University's Proportionate Share of the HIS Net Pension Liability as a Percentage of Covered Payroll | 39.32%              | 35.98%              | 33.29%              | 31.40%          |
| HIS Plan Fiduciary Net Position as a Percentage of the HIS Total Pension Liability                   | 0.97%               | 0.50%               | 0.99%               | 1.78%           |

**Notes:**

- (1) The amounts presented for each fiscal year were determined as of June 30.
- (2) Change of assumption - The municipal rate used to determine total pension liability decreased from 4.63% to 4.29%.
- (3) Change of assumption - The municipal rate used to determine total pension liability decreased from 4.29% to 3.80%.
- (4) Change of assumption - The municipal rate used to determine total pension liability decreased from 3.80% to 2.85%.
- (5) Covered payroll includes active employees who are members of the following plans: defined benefit, Investment Plan, and DROP.

**Schedule of University Contributions - Health Insurance Subsidy (HIS) Defined Benefit Pension Plan**

|  | <u>2017 (1)</u>    | <u>2016 (1)</u>    | <u>2015 (1)</u>    | <u>2014 (1)</u>    |
|--|--------------------|--------------------|--------------------|--------------------|
| Contractually Required HIS Contribution                                      | \$ 7,783,620       | \$ 7,538,309       | \$ 5,578,364       | \$ 4,834,988       |
| HIS Contributions in Relation to the Contractually Required HIS Contribution | <u>(7,783,620)</u> | <u>(7,538,309)</u> | <u>(5,578,364)</u> | <u>(4,834,988)</u> |
| Contribution Deficiency (Excess)   | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        |
| University's Covered Payroll (2)   | \$ 431,629,539     | \$ 435,925,174     | \$ 413,619,247     | \$ 396,471,815     |
| HIS Contributions as a Percentage of Covered Payroll                         | 1.80%              | 1.73%              | 1.35%              | 1.22%              |

**Notes:**

- (1) The amounts presented for each fiscal year were determined as of June 30.
- (2) Covered payroll includes active employees who are members of the following plans: defined benefit, Investment Plan, and DROP.



Sherrill F. Norman, CPA  
Auditor General

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated February 22, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
February 22, 2018  
Audit Report No. 2018-118

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