

FLORIDA INTERNATIONAL UNIVERSITY PARKING FACILITY REVENUE BONDS

CUSIP Numbers

Maturity Date	Series 2009B Dated 12/17/2009	Series 2013A (New & Refunding) Dated 9/26/2013
7/01/18	34157PAJ3	34157PBL7
7/01/19	34157PAK0	34157PBM5
7/01/20	34157PAL8	34157PBN3
7/01/21	34157PAM6	34157PBP8
7/01/22	34157PAN4	34157PBQ6
7/01/23	34157PAP9	34157PBR4
7/01/24	34157PAQ7	34157PBS2
7/01/25	34157PAR5	34157PBT0
7/01/26	34157PAS3	34157PBU7
7/01/27	-	34157PBV5
7/01/28	-	34157PBW3
7/01/29	34157PAV6	34157PBX1
7/01/30	-	34157PBY9
7/01/31	-	34157PBZ6
7/01/33	-	34157PCB8
7/01/35	-	34157PCD4
7/01/38	-	34157PCG7
7/01/39	34157PBF0	-
7/01/43	-	34157PCM4

**ANNUAL FINANCIAL INFORMATION
AND OPERATING DATA
SUBMITTED PURSUANT TO RULE 15c2-12
OF THE SECURITIES AND EXCHANGE COMMISSION
FOR THE**

**STATE OF FLORIDA
BOARD OF GOVERNORS
FLORIDA INTERNATIONAL UNIVERSITY
PARKING FACILITY REVENUE BONDS
SERIES 2009A & B
SERIES 2013A (NEW & REFUNDING)**

for Fiscal Year ending June 30, 2017

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I. Daytime Campus Population and Total Number of Parking Spaces.

The Parking System at the University Park and Biscayne Bay Campuses currently serves a daytime campus population of 50,707 students, faculty and staff members. In addition, there is an undeterminable number of visitors, delivery, service and emergency vehicles that require parking spaces each day. The Parking System currently provides 17,204 vehicle spaces, with 15,625 of those spaces available for general faculty, staff and student parking and 1,579 spaces available for reserved, handicapped, service vehicle, loading and visitor parking spaces. The University has 8,135 paved surface parking spaces and 9,069 spaces in 7 multi-level parking garages. Parking spaces on the main campus total 13,993, with 2,411 spaces on the Biscayne Bay Campus and 800 spaces on the Engineering Center Campus.

II. Number of Parking Decals Issued, Parking Decal Costs by Type, and Student Parking Access Fee Assessments.

Number of Parking Decals Issued Parking Decal Costs by Type¹ and Student Parking And Transportation Access Fee Assessments

<u>Parking Decal Type</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Executive Permits					
Number of Decals	58	67	72	91	88
Decal Costs	\$972	\$973	\$973	\$973	\$973
Administrative					
Number of Decals	602	641	675	719	878
Decal Costs	\$447	\$447	\$447	\$447	\$447
Faculty and Staff 25K<*					
Number of Decals	1,061	923	1,282	1,115	1,002
Decal Costs	\$133	\$133	\$133	\$133	\$133
Faculty and Staff 25K-35K					
Number of Decals	485	292	384	401	388
Decal Costs	\$155	\$155	\$155	\$155	\$155
Faculty and Staff 35K-45K					
Number of Decals	615	559	594	727	690
Decal Costs	\$227	\$226	\$226	\$226	\$226
Faculty and Staff 45K+					
Number of Decals	1,529	1,644	1,673	1,927	1,982
Decal Costs	\$254	\$254	\$254	\$254	\$254
Student Parking and Transportation Access Fee					
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Number of Students-Fall	40,224	43,153	45,230	45,482	45,679
Number of Students-Spring	40,336	43,417	43,330	43,322	43,381
Number of Students-Summer	23,703	29,216	30,190	30,319	29,733
Fall/Spring Fee	\$89.00	\$89.00	\$89.00	\$89.00	\$89.00
Summer Fee	\$83.00	\$83.00	\$83.00	\$83.00	\$83.00

¹ Decal costs shown do not include (but are subject to) State sales tax. This table includes all major decal types. The University sells various other minor categories of decals such as vendor and temporary decals. These other categories account for less than two percent of Parking System Revenues.

* Qualifying rate changed from \$25,000 to \$30,000 in Fiscal Year 2014-15.

III. Comparison of Budget to Actual for Fiscal Year.

This information has been prepared by the University on a cash basis for internal management purposes only and has not been audited.

**Florida International University
University Parking Operations¹
Comparison of Budget to Actual for Fiscal Years Ended June 30, 2013 through 2017 and Budget for Fiscal Year Ending June 30, 2018**

Amounts in Thousands ²	Fiscal Year 2012-13			Fiscal Year 2013-14			Fiscal Year 2014-15			Fiscal Year 2015-16			Fiscal Year 2016-17			Fiscal Year 2018
	<u>Budget</u>	<u>Actual</u>	<u>+ /(-)</u>	<u>Budget</u>	<u>Actual</u>	<u>+ /(-)</u>	<u>Budget</u>	<u>Actual</u>	<u>+ /(-)</u>	<u>Budget</u>	<u>Actual</u>	<u>+ /(-)</u>	<u>Budget</u>	<u>Actual</u>	<u>+ /(-)</u>	<u>Budget</u>
Revenues																
Decal Sales and Parking and Transportation access fees	\$10,398	\$10,479	\$81	\$10,583	\$11,475	\$892	\$11,545	\$11,844	\$299	\$11,515	\$11,851	\$336	\$11,787	\$12,118	\$331	\$12,268
Visitor Parking ³	1,098	772	(326)	850	1,525	676	1,050	1,179	129	372	359	(13)	372	492	120	550
Traffic Fines and Towing	1,024	1,388	364	1,214	1,133	(81)	1,277	715	(562)	1,368	1,929	561	1,896	2,327	431	2,501
Interest Income	2	6	4	6	4	(2)	5	3	(2)	3	19	16	4	51	47	99
Transfers In	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	\$12,522	\$12,646	\$124	\$12,652	\$14,137	\$1,485	\$13,877	\$13,740	(\$137)	\$13,258	\$14,159	\$900	\$14,059	\$14,988	\$929	\$15,418
Expenditures																
Personnel Services	\$2,345	\$2,224	\$121	\$2,481	\$2,516	(\$35)	\$2,734	\$2,680	\$54	\$2,887	\$2,520	\$366	\$2,958	\$2,632	\$327	\$3,184
Operating Expenses	2,295	2,345	(50)	1,503	1,785	(282)	1,620	1,814	(193)	1,648	2,024	(376)	1,645	2,471	(826)	1,736
Administrative Overhead	333	416	(83)	266	288	(22)	292	298	(7)	307	300	7	307	331	(24)	330
Capital Outlay	<u>89</u>	<u>86</u>	<u>3</u>	<u>28</u>	<u>10</u>	<u>18</u>	<u>33</u>	<u>25</u>	<u>8</u>	<u>46</u>	<u>65</u>	<u>(19)</u>	<u>77</u>	<u>161</u>	<u>(84)</u>	<u>140</u>
Total Expenditures	\$5,062	\$5,071	(\$9)	\$4,277	\$4,599	(\$322)	\$4,679	\$4,817	(\$138)	\$4,888	\$4,909	(\$21)	\$4,987	\$5,595	(\$608)	\$5,390
Net Income	<u>\$7,460</u>	<u>\$7,575</u>	<u>\$115</u>	<u>\$8,375</u>	<u>\$9,538</u>	<u>\$1,163</u>	<u>\$9,198</u>	<u>\$8,923</u>	<u>(\$275)</u>	<u>\$8,371</u>	<u>\$9,250</u>	<u>\$879</u>	<u>\$9,071</u>	<u>\$9,393</u>	<u>\$321</u>	<u>\$10,028</u>

¹ Amounts reflected on the schedule pertain to primary parking operations and do not include other components of parking activities reported in the segment financial statements for the Parking System as a whole.

² Data does not include Shuttle Services, Panther Mover, CATs and Vehicle Services.

³ Includes events revenues.

IV. Admission and Registration Headcounts and Percentages by Type of Student.

Admission and Registration Headcounts and Percentages by Type of Student

	<u>Fall 2013</u>	<u>Fall 2014</u>	<u>Fall 2015</u>	<u>Fall 2016</u>	<u>Fall 2017</u>
All Students:					
Applicants	40,445	42,601	42,273	42,057	40,379
Admitted	19,126	20,364	20,572	21,060	19,530
% of Applicants Admitted	47%	48%	49%	50%	48%
Enrolled	10,554	10,491	10,687	11,179	10,759
% of Admitted Enrolled	55%	52%	52%	53%	55%
First-Time-in-College:					
Applicants	16,549	17,617	15,868	17,218	14,861
Admitted	7,122	8,380	7,915	8,498	7,596
% of Applicants Admitted	43%	48%	50%	49%	51%
Enrolled	2,990	3,013	2,879	3,170	2,895
% of Admitted Enrolled	42%	36%	36%	37%	38%
Community College Transfers:					
Applicants	5,391	5,634	5,864	5,873	5,923
Admitted	4,491	5,030	5,314	5,267	5,033
% of Applicants Admitted	83%	89%	91%	90%	85%
Enrolled	3,324	3,457	3,630	3,680	3,711
% of Admitted Enrolled	74%	69%	68%	70%	74%
Other Undergraduate Transfers:					
Applicants	4,041	4,349	4,393	4,042	4,070
Admitted	2,682	2,445	2,708	2,479	2,319
% of Applicants Admitted	66%	56%	62%	61%	57%
Enrolled	1,562	1,425	1,507	1,447	1,434
% of Admitted Enrolled	58%	58%	56%	58%	62%
Graduate:					
Applicants	8,390	8,751	9,605	9,458	8,782
Admitted	3,922	3,781	3,719	3,946	3,697
% of Applicants Admitted	47%	43%	39%	42%	42%
Enrolled	2,373	2,305	2,372	2,553	2,400
% of Admitted Enrolled	61%	61%	64%	65%	65%
Professionals:					
Applicants	6,074	6,250	6,543	5,466	6,743
Admitted	909	728	916	870	885
% of Applicants Admitted	15%	12%	14%	16%	13%
Enrolled	305	291	299	329	319
% of Admitted Enrolled	34%	40%	33%	38%	36%
Post Baccalaureate					
Applicants	14,464	15,001	16,148	14,924	15,525
Admitted	4,831	4,509	4,635	4,816	4,582
% of Applicants Admitted	33%	30%	29%	32%	30%
Enrolled	2,678	2,596	2,671	2,882	2,719
% of Admitted Enrolled	55%	58%	58%	60%	59%

V. Headcount and Full-Time Equivalent Enrollment by Level.

Headcount Enrollment by Level

<u>Fall</u>	<u>Undergraduate</u>	<u>Graduate</u>	<u>Annual Total</u>	<u>Dual</u>
2013-14	44,395	8,585	52,980	5,436
2014-15	45,475	8,624	54,099	5,608
2015-16	45,298	8,760	54,058	4,399
2016-17	45,944	9,168	55,112	4,146
2017-18	47,779	9,107	56,886	5,135

The full-time equivalent (FTE) student calculation factor is a measure of student enrollment based on the number of student credit hours for which students enroll. FTE enrollment is determined by dividing the total number of hours enrolled by all students in a specific category by the appropriate hour requirement.

The Florida State University System has previously reported FTEs under its own methodology where 15 undergraduate student credit hours or 12 graduate student credit hours are equivalent to one FTE during the fall and spring semesters. During the summer semester, 10 undergraduate student credit hours or 8 graduate student credit hours are equivalent to one FTE. Annual full-time equivalency is 40 credit hours for undergraduate students and 32 credit hours for graduate students.

The federal government's IPEDS (Integrated Postsecondary Education Data System) method defines one FTE as 30 credit hours over a 12-month period for undergraduate students and 24 credit hours over a 12-month period for graduate students.

**Full-Time-Equivalent Enrollment by Level
(Using Florida method)**

<u>Academic Year</u>	<u>Undergraduate*</u>	<u>Graduate*</u>	<u>Annual Total*</u>	<u>College of Medicine</u>
2012-13	24,676	4,470	29,146	281
2013-14	25,775	4,334	30,109	368
2014-15	26,223	4,188	30,411	440
2015-16	26,448	4,163	30,611	475
2016-17	26,834	4,106	30,940	493

* Does not include College of Medicine students.

**All Students
Full-Time-Equivalent Enrollment by Level*
(Using IPED method)**

<u>Academic Year</u>	<u>Undergraduate</u>	<u>Graduate</u>	<u>Annual Total</u>	<u>College of Medicine</u>
2012-13	34,130	7,945	42,075	281
2013-14	35,637	7,933	43,570	368
2014-15	36,257	7,921	44,178	440
2015-16	36,512	7,974	44,486	475
2016-17	37,254	8,125	45,379	493

* Does not include College of Medicine students.

**State Fundable Students
University Full-Time-Equivalent Enrollment by Level
(Using IPEDS method)**

<u>Academic Year</u>	<u>Undergraduate*</u>	<u>Graduate*</u>	<u>Annual Total*</u>	<u>College of Medicine</u>
2012-13	32,902	5,958	38,860	281
2013-14	34,366	5,763	40,129	368
2014-15	34,964	5,564	40,528	440
2015-16	35,264	5,528	40,792	475
2016-17	35,777	5,429	41,206	493

* Does not include College of Medicine students.

VI. Historical Debt Service Coverage.

Florida International University Historical Parking Operations Debt Service Coverage¹ Historical Debt Service Coverage from Pledged Revenues

	Fiscal Year Ended June 30,				
	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>
Operating Revenues					
Parking Decals and Fees	\$11,042,499	\$12,126,244	\$12,669,602	\$12,436,882	\$12,837,740
Visitor Parking	419,562	427,158	256,668	629,126	747,673
Traffic Fines, Towing & Other Revenue ²	<u>2,929,007</u>	<u>2,982,936</u>	<u>2,722,041</u>	<u>2,524,823</u>	<u>2,570,370</u>
Less: Shuttle Services	(485,934)	(522,843)	(478,286)	(528,211)	(555,831)
Less: Vehicle Services ³	(1,248,348)	(1,255,375)	(1,328,018)	(704,212)	0
Total Parking System Revenues ⁴	\$12,656,786	\$13,758,120	\$13,842,008	\$14,358,408	\$15,599,952
Current Expenses					
Salaries and Personnel Services	\$2,744,158	\$3,102,023	\$3,365,864	\$3,218,644 ⁵	\$2,904,023
Other Operating Expenses	<u>4,751,730</u>	<u>4,703,540</u>	<u>5,194,517</u>	<u>5,068,927</u>	<u>5,601,516</u>
Less: One-Time capital expenditures ⁶	(718,562)	(428,900)	(522,568)	(759,071)	0
Less: Shuttle Services	(1,090,581)	(1,116,284)	(1,408,049)	(1,022,811)	(1,936,246)
Less: Vehicle Services ³	(1,308,349)	(1,252,850)	(1,468,188)	(509,937)	0
Less: Administrative Overhead	<u>(316,454)</u>	<u>(296,489)</u>	<u>(298,325)</u>	<u>(319,943)</u>	<u>(367,320)</u>
Total Current Expenses ⁴	\$4,061,942	\$4,711,041	\$4,863,252	\$5,675,809	\$6,201,973
Net Parking System Revenues	\$8,594,844	\$9,047,080	\$8,978,756	\$8,682,599	\$9,397,979
Interest Income ⁷	\$5,922	\$3,871	\$2,508	\$19,015	\$51,083
Pledged Revenues	\$8,600,766	\$9,050,951	\$8,981,265	\$8,701,614	\$9,449,063
Total Annual Debt Service ⁸	\$5,580,014	\$6,274,193	\$6,927,527	\$6,915,978	\$6,904,654
Maximum Annual Debt Service	\$6,927,527	\$6,927,527	\$6,927,527	\$6,915,978	\$6,904,654
Coverage Ratios					
Annual Debt Service	1.54x	1.44x	1.30x	1.26x	1.37x
Maximum Annual Debt Service	1.24x	1.31x	1.30x	1.26x	1.37x
Federal Subsidy for the 2009B Bonds	\$614,372	\$596,064	\$595,421	\$589,238	\$577,828
Coverage Ratios with Subsidy					
Annual Debt Service	1.65x	1.54x	1.38x	1.34x	1.45x
Maximum Annual Debt Service	1.33x	1.40x	1.38x	1.34x	1.45x

¹ The financial information related to revenues and expenses was provided by the University and has not been audited, and it reflects primary parking operations and do not include other components of parking activities reported in the segment financial statements for the Parking System as a whole.

² Includes events revenue.

³ Vehicle Services stopped in Fiscal Year 2017.

⁴ Excludes all shuttle services, CATs, Panther Mover and Vehicle Services, which are included in the financial statements but not included in the Pledged Revenues.

⁵ This figure has been restated from prior year.

⁶ Generally includes one-time capital expenses that are not incidental to the normal operation and maintenance of the Parking System. Fiscal Year 2014 includes \$321,000 due to Accounting Error. Fiscal Year 2016 includes approximately \$400,000 for the installation of license plate reading technology.

⁷ Interest Income is from Operating Account Only.

⁸ Maximum annual debt service occurs in Fiscal Year 2017.

Investment of Funds

Investment by the Chief Financial Officer - Funds held in the State Treasury are invested by internal and external investment managers. As of June 30, 2017, the ratio was approximately 46% internally managed funds, 44% externally managed funds, 5% Certificates of Deposit and 5% in an externally managed Security Lending program. The total portfolio market value on June 30, 2017, was \$24,498,384,318.70.

Under State law, the Treasury is charged with investing funds of each State agency and the judicial branch. As of June 30, 2017, \$17.301 billion of the investments in the Treasury consisted of accounts held by State agencies that are required by law to maintain their investments in the Treasury; additionally, \$6.172 billion as of this date consisted of moneys held by certain boards, associations, or entities created by the State Constitution or by State law that are not required to maintain their investments with the Treasury and are permitted to withdraw these funds from the Treasury.

As provided by State law, the Treasury must be able to timely meet all disbursement needs of the State. Accordingly, the Treasury allocates its investments to provide for estimated disbursements plus a cushion for liquidity in instances of greater-than-expected disbursement demand.

To this end, a portion of Treasury's investments are managed for short-term liquidity and preservation of principal. The remainder is managed to obtain maximum yield, given the safety parameters of State law and Treasury's Comprehensive Investment Policy. Investments managed for short-term liquidity and preservation of principal are managed "internally" by Treasury personnel. The majority of investments managed for a maximum return are managed by "external" investment companies hired by the State.

The Externally Managed Investment Program provides long-term value while limiting risk appropriately and provides a backup source of liquidity. External investment strategy focuses on medium-term and long-term fixed income securities, rather than money market instruments, in order to take advantage of higher returns historically achieved by such securities. Portfolio managers are hired to actively manage funds. These funds may be invested in U.S. Treasury government agency obligations, investment grade corporate debt, municipal debt, mortgage backed securities, asset backed securities, and U.S. dollar denominated investment-grade foreign bonds that are registered with the Securities and Exchange Commission. The managers may also use leveraging techniques such as forward purchase commitments, and interest rate futures.

Investment by the Board of Administration - The Board of Administration manages investment of assets on behalf of the members of the Florida Retirement System (the "FRS") Defined Benefit Plan. It also acts as sinking fund trustee for most State bond issues and oversees the management of FRS Investment Plan investment options, Florida Hurricane Catastrophe Fund moneys, a short-term investment pool for local governments and smaller trust accounts on behalf of third party beneficiaries.

The Board of Administration adopts specific investment policy guidelines for the management of its funds which reflect the long-term risk, yield, and diversification requirements necessary to meet its fiduciary obligations. As of June 30, 2017, the Board of Administration directed the investment/administration of 24 funds in 550 portfolios.

As of June 30, 2017 the total market value of the FRS (Defined Benefit) Trust Fund was \$153,573,300,932.88. The Board of Administration pursues an investment strategy which allocates assets to different investment types. The long-term objective is to meet liability needs as determined by actuarial assumptions. Asset allocation levels are determined by the liquidity and cash flow requirements of the FRS, absolute and relative valuations of the asset class investments, and opportunities within those asset classes. Funds are invested internally and externally under a Defined Benefit Plan Investment Policy Statement.

The Board of Administration uses a variety of derivative products as part of its overall investment strategy. These products are used to manage risk or to execute strategies more efficiently or more cost effectively than could be done in the cash markets. They are not used to speculate in the expectation of earning extremely high returns. Any of the products used must be within investment policy guidelines designed to control the overall risk of the portfolio.

The Board of Administration invests assets in 23 designated funds other than the FRS (Defined Benefit) Trust Fund. As of June 30, 2017, the total market value of these funds equaled \$37,890,376,569.62. Each fund is independently managed by the Board of Administration in accordance with the applicable documents, legal requirements and investment plan. Liquidity and preservation of capital are preeminent investment objectives for most of these funds, so investments for these are restricted to high quality money market instruments (e.g., cash, short-term treasury securities, certificates of deposit, banker's acceptances, and commercial paper). The term of these investments is generally short, but may vary depending upon the requirements of each trust and its investment plan.

Investment of bond sinking funds is controlled by the resolution authorizing issuance of a particular series of bonds. The Board of Administration's investment policy with respect to sinking funds is that only U.S. Treasury securities, and repurchase agreements backed thereby, be used.

Florida International University

Parking System

Financial Statements

**For the Fiscal Years Ended
June 30, 2017 and June 30, 2016**

Unaudited

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Management's Discussion and Analysis

The management's discussion and analysis (MD&A) introduces the Florida International University's Parking System Annual Financial Statements and provides an overview of the Parking System financial activities during the fiscal year ended June 30, 2017, and should be read in conjunction with the financial statements and notes hereto. This overview is required by the 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, and financial statements and notes hereto, are the responsibility of University Management. The MD&A contains financial activity of the University's Parking System for the fiscal years ended June 30, 2017, and June 30, 2016.

FINANCIAL HIGHLIGHTS

The Parking System's assets totaled \$114.3 million at June 30, 2017. This amount is reported net of accumulated depreciation of \$22.9 million. Total assets decreased \$2.1 million or 1.8 percent as compared to the 2015-16 fiscal year. The decrease resulted primarily from current year depreciation on capital assets which was offset slightly by increased construction in progress.

Total liabilities were \$68.1 million at June 30, 2017, compared to \$71.7 million at June 30, 2016. The decrease of \$3.6 million or 5 percent is mainly attributed to reductions of \$0.6 million in construction contracts payable, \$0.2 million due to other funds, \$3.3 million principal payments on capital improvement debt payable and an increase in accounts payable of \$0.5 million.

The Parking System's total net position balance of \$46.2 million at the end of the year represents an increase of \$1.5 million or 3.4 percent from the total beginning net position balance of \$44.7 million. Total net position consisted of \$35.4 million in net investment in capital assets, \$7.9 million unrestricted and \$2.9 million restricted, expendable for debt service and capital projects.

THE STATEMENT OF NET POSITION

The statement of net position reflects the assets and liabilities of the Parking System, using the accrual basis of accounting, and presents the financial position of the Parking System at a specified time. The difference between total assets and total liabilities, net position, is one indicator of the Parking System's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the Parking System's financial condition.

Management's Discussion and Analysis

The following summarizes the Parking System's assets, liabilities, and net position at June 30:

Condensed Statements of Net Position at June 30 (In Millions)

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets	\$ 9.4	\$ 9.3
Capital Assets, Net	102.0	104.3
Other Noncurrent Assets	<u>2.9</u>	<u>2.8</u>
Total Assets	<u>114.3</u>	<u>116.4</u>
Liabilities		
Current Liabilities	4.4	4.6
Noncurrent Liabilities	<u>63.7</u>	<u>67.1</u>
Total Liabilities	<u>68.1</u>	<u>71.7</u>
Net Position		
Net Investment in Capital Assets	35.4	34.8
Restricted	2.9	2.9
Unrestricted	<u>7.9</u>	<u>7.0</u>
Total Net Position	<u>\$ 46.2</u>	<u>\$ 44.7</u>

THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The statement of revenues, expenses, and changes in net position presents the Parking System's revenues 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.

Management's Discussion and Analysis

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

Condensed Statements of Revenues, Expenses, and Changes in Net Position For the Fiscal Years (In Millions)

	<u>2016-17</u>	<u>2015-16</u>
Operating Revenues	\$ 16.2	\$ 15.6
Less, Operating Expenses	<u>11.5</u>	<u>11.2</u>
Operating Income	4.7	4.4
Net Nonoperating Expenses	<u>(3.7)</u>	<u>(3.7)</u>
Income Before Other Revenues, Expenses, Gains, or Losses	1.0	0.7
Other Revenues, Expenses, Gains, or Losses	<u>0.5</u>	<u>0.7</u>
Increase in Net Position	1.5	1.4
Net Position, Beginning of Year	<u>44.7</u>	<u>43.3</u>
Net Position, End of Year	<u><u>\$ 46.2</u></u>	<u><u>\$ 44.7</u></u>

Operating Revenues

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

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

Operating Revenues For the Fiscal Years (In Millions)

	<u>2016-17</u>	<u>2015-16</u>
Parking Decal and Fees	\$ 12.8	\$ 12.5
Visitor Parking	0.8	0.6
Traffic Fines and Other Operating	<u>2.6</u>	<u>2.5</u>
Total Operating Revenues	<u><u>\$ 16.2</u></u>	<u><u>\$ 15.6</u></u>

Operating revenues were \$16.2 million for the fiscal years 2016-17, representing a slight \$0.6 million increase from 2015-16 fiscal year. Revenues derived from parking decals and fees, totaling \$12.8 million, were the largest components of operating revenues.

Management's Discussion and Analysis

Operating Expenses

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

The following summarizes the operating expenses by natural classifications for the 2016-17 and 2015-16 fiscal years:

	<u>2016-17</u>	<u>2015-16</u>
Compensation and Employee Benefits	\$ 2.9	\$ 3.2
Services and Supplies	5.0	4.4
Utilities and Communications	0.5	0.5
Scholarships, Fellowships, and Waivers	0.2	0.2
Depreciation	<u>2.9</u>	<u>2.9</u>
Total Operating Expenses	<u>\$ 11.5</u>	<u>\$ 11.2</u>

Operating expenses totaled \$11.5 million, representing an increase of \$0.3 million from the 2015-16 fiscal year. Operating expenses include depreciation expense of \$2.9 million.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses reported during fiscal year 2016-17 consist of noncapital donations, investment income, interest expense, adjustments to the fair value of investments, loss on disposal of capital assets and other nonoperating expense. The fluctuation in nonoperating revenues and expenses is mainly attributable to interest on asset related debt, realized investment income, adjustments to fair market value of investments and other nonoperating expenses.

Capital Grants and Donations

The Parking System received \$0.7 million in capital grant revenue, composed of \$0.6 million in capital grant revenue for an annual interest subsidy from the Federal Government for the Build America Bonds and a \$0.1 million capital donation for Parking capital construction. The rate of the subsidy depends on the Federal Government sequestration rate through 2024, after which the rate will return to 35 percent. The Parking System will receive the annual subsidy for the life of the bonds.

THE STATEMENT OF CASH FLOWS

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

Management's Discussion and Analysis

financing activities include those activities not covered in other sections.

Management's Discussion and Analysis

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

Condensed Statements of Cash Flows For the Fiscal Years (In Millions)

	2016-17	2015-16
Cash Provided (Used) by:		
Operating Activities	\$ 8.1	\$ 7.1
Capital and Related Financing Activities	(8.1)	(9.4)
Investing Activities	(0.1)	2.6
Net (Decrease) Increase in Cash and Cash Equivalents	(0.1)	0.3
Cash and Cash Equivalents, Beginning of Year	1.4	1.1
Cash and Cash Equivalents, End of Year	\$ 1.3	\$ 1.4

Major sources of funds were Parking decals and fees (\$12.8 million) and traffic fines, towing and other operating revenues (\$2.6 million). Major uses of funds were disbursements for payments to suppliers (\$4.9 million), interest on capital debt (\$3.8 million), payments made to and on behalf of employees (\$2.9 million), payments for principal on capital improvement debt payable and refunding capital improvement debt (\$3.1 million), and purchases of capital assets of (\$1.4 million).

CAPITAL ASSETS

At June 30, 2017 the Parking System had \$124.9 million in capital assets, less accumulated depreciation of \$22.9 million, for net capital assets of \$102.0 million. Depreciation charges for the current fiscal year totaled \$2.9 million.

Capital Assets, Net at June 30 (In Millions)

	2017	2016
Construction in Progress	\$ 2.2	\$ 1.8
Buildings	98.7	101.4
Infrastructure and Other Improvements	0.4	0.5
Furniture and Equipment	0.7	0.6
Capital Assets, Net	\$ 102.0	\$ 104.3

Management's Discussion and Analysis

DEBT ADMINISTRATION

As of June 30, 2017 the Parking System had \$67.0 million in outstanding capital improvement debt payable.

The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30, 2017 and June 30, 2016:

Long-Term Debt, at June 30

(In Millions)

	<u>2017</u>	<u>2016</u>
Capital Improvement Debt Payable	<u>\$ 67.0</u>	<u>\$ 70.3</u>

In a continuous effort to provide better customer service to all constituents, the Parking System will continue to look into new strategies and develop services to provide improved access to education and research to all students, faculty and visitors.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Chief Financial Officer and Senior Vice President for Finance and Administration, Dr. Kenneth Jessell, at Florida International University, 11200 Southwest 8th Street, Miami, Florida 33199.

Basic Financial Statements
Florida International University
Parking System
Statements of Net Position (Unaudited)
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,336,410	\$ 1,367,817
Investments	7,392,608	7,253,051
Accounts Receivable, Net	651,384	654,485
Due from Component Units	25,251	8
Total Current Assets	9,405,653	9,275,361
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	11,215	11,111
Restricted Investments	2,861,991	2,852,132
Furniture and Equipment	1,575,107	1,578,834
Infrastructure and Other Improvements	950,226	950,226
Buildings	120,207,464	120,207,464
Construction in Progress	2,176,445	1,780,795
Accumulated Depreciation	(22,908,290)	(20,253,305)
Total Noncurrent Assets	104,874,158	107,127,257
Total Assets	114,279,811	116,402,618
LIABILITIES		
Current Liabilities:		
Accounts Payable	577,287	119,125
Construction Contracts Payable	265,118	889,133
Salaries and Wages Payable	115,069	92,105
Due to Other Funds	-	211,326
Long-Term Liabilities - Current Portion		
Capital Improvement Debt Payable	3,433,474	3,288,474
Compensated Absences Payable	12,701	10,958
Total Current Liabilities	4,403,649	4,611,121
Noncurrent Liabilities:		
Capital Improvement Debt Payable	63,571,549	67,005,023
Compensated Absences Payable	138,158	125,673
Total Noncurrent Liabilities	63,709,707	67,130,696
Total Liabilities	68,113,356	71,741,817
NET POSITION		
Net Investment in Capital Assets	35,417,401	34,804,190
Restricted for Expendable		
Debt service	2,873,205	2,863,243
Unrestricted	7,875,849	6,993,368
TOTAL NET POSITION	\$ 46,166,455	\$ 44,660,801

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

Parking System
Statements of Revenues, Expenses, and Changes in Net Position (Unaudited)
For the Fiscal Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUES		
Operating Revenues:		
Parking Decal and Fees	\$ 12,837,740	\$ 12,436,882
Visitor Parking	747,673	629,126
Traffic Fines, Towing and Other Operating Revenue	<u>2,570,370</u>	<u>2,524,823</u>
Total Operating Revenues	<u>16,155,783</u>	<u>15,590,831</u>
EXPENSES		
Operating Expenses		
Compensation and Employee Benefits	2,904,023	3,218,644
Services and Supplies	4,942,348	4,363,806
Utilities and Communications	433,898	499,046
Scholarships, Fellowships, and Waivers	225,270	206,075
Depreciation	<u>2,946,214</u>	<u>2,888,207</u>
Total Operating Expenses	<u>11,451,753</u>	<u>11,175,778</u>
Operating Income	<u>4,704,030</u>	<u>4,415,053</u>
NONOPERATING REVENUES (EXPENSES)		
Noncapital Donations	9,864	-
Investment Income	61,709	13,780
Loss on Disposal of Capital Assets	(1,656)	-
Interest on Capital Asset-Related Debt	(3,616,180)	(3,762,505)
Other Nonoperating Expenses	<u>(166,251)</u>	<u>-</u>
Net Nonoperating Expenses	<u>(3,712,514)</u>	<u>(3,748,725)</u>
Income Before Other Revenues, Expenses, Gains, or Losses	991,516	666,328
Capital Grants, Contracts, Donations, and Fees	652,129	589,238
Transfers (Out) In	<u>(137,991)</u>	<u>103,006</u>
Increase in Net Position	1,505,654	1,358,572
Net Position, Beginning of Year	<u>44,660,801</u>	<u>43,302,229</u>
Net Position, End of Year	<u>\$ 46,166,455</u>	<u>\$ 44,660,801</u>

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

Parking System
Statements of Cash Flows (Unaudited)
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Sales and Services of Parking System	\$ 16,127,681	\$ 15,566,815
Changes in Other Accounts Receivable	5,959	(126,366)
Payments to Employees	(2,866,831)	(3,224,987)
Payments to Suppliers for Goods and Services	(4,918,089)	(4,887,056)
Other Operating Disbursements	(225,269)	(206,075)
Net Cash Provided by Operating Activities	8,123,451	7,122,331
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital Donations	9,864	-
Net Cash Provided by Noncapital Financing Activities	9,864	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Advances to Other Funds	(377,577)	(581,828)
Capital Grants, Contracts, Donations, and Fees	652,129	589,238
Purchase or Construction of Capital Assets	(1,446,812)	(2,489,131)
Principal Paid on Capital Debt	(3,135,000)	(3,000,000)
Interest Paid on Capital Debt	(3,769,654)	(3,915,978)
Net Cash (Used) by Capital and Related Financing Activities	(8,076,914)	(9,397,699)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Change in Investments	(149,216)	2,513,114
Investment Income	61,512	26,110
Net Cash (Used) Provided by Investing Activities	(87,704)	2,539,224
Net (Decrease) Increase in Cash and Cash Equivalents	(31,303)	263,856
Cash and Cash Equivalents, Beginning of Year	1,378,928	1,115,072
Cash and Cash Equivalents, End of Year	\$ 1,347,625	\$ 1,378,928
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Income	\$ 4,704,030	\$ 4,415,053
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	2,946,214	2,888,207
Change in Assets and Liabilities		
Interest Receivable	-	637
Accounts Receivable, Net	3,101	(151,157)
Due from Component Units	(25,243)	137
Accounts Payable	458,157	(24,203)
Accrued Salaries and Wages	22,964	36,952
Accrued Compensated Absences Current & Noncurrent	14,228	(43,295)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 8,123,451	\$ 7,122,331
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES		
Unrealized gains (losses) on investments were recognized as an increase (reduction) to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 197	\$ (12,328)
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the cash flow statement.	\$ (1,656)	\$ -

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

Parking System

Notes to Financial Statements (Unaudited)

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The financial statements of the Parking System are an integral part of the financial statements of Florida International University (the University). The University is a part of the State University System and accordingly, the University is governed, regulated, and coordinated by the Florida Board of Governors and the University's Board of Trustees.

Basis of Presentation. The Parking System'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. GASB allows public universities various reporting options. The Parking System has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

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 Parking System's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The University and the Parking System follow GASB standards of accounting and financial reporting.

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. 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 cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand and cash in demand accounts. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

Parking System
Notes to Financial Statements (Unaudited)
June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets. The Parking System's capital assets consist of buildings, infrastructure and improvements, furniture and equipment and construction in progress. These assets are capitalized and recorded at cost at the date of acquisition. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$5,000 for tangible personal property and \$50,000 for buildings, leasehold improvements and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 20 to 50 years
- Infrastructure and Other Improvements – 15 years
- Furniture and Equipment – 3 to 20 years

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable and compensated absences payable. Capital improvement debt is reported net of unamortized premium and deferred losses on refunding. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. The University implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, accordingly, debt issuance costs previously reported as deferred charges have been expensed during the current year.

2. INVESTMENTS

Investments for the Parking System are reported at the market value of \$10,254,599 and \$10,105,183 at June 30, 2017 and 2016, respectively.

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 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 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 Board of Trustees as authorized by law. Investments set aside to make debit service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The Parking System's investments as of June 30, 2017 consist of money market funds reported at amortized cost totaling \$7,392,608 and \$7,253,051 at June 30, 2017 and 2016, respectively, and SBA Debt Service Accounts totaling \$2,861,991 and \$2,852,132 at June 30, 2017 and 2016, respectively reported as a Level 1 inputs at fair value according to GASB 72.

Parking System
Notes to Financial Statements (Unaudited)
June 30, 2017 and 2016

2. INVESTMENTS (Continued)

State Board of Administration Debt Service Accounts

The Parking System's reported investments totaling \$2,861,991 and \$2,852,132 at June 30, 2017 and 2016 respectively, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the Parking System. The Parking System's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value (Level 1 inputs). The Parking System relies on policies developed by the SBA for managing interest rate risk or credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

3. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for parking fees and citations due to the Parking System. The Parking System's accounts receivable totaled \$1,719,168 and \$1,266,250 at June 30, 2017 and 2016, respectively.

Allowance for Doubtful Receivables. Allowances for doubtful accounts are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. The Parking System's accounts receivable are reported net of allowances of \$1,067,784 and \$611,765, respectively, at June 30, 2017 and 2016, respectively.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Construction in Progress	\$ 1,780,795	\$ 782,685	\$ 387,035	\$ 2,176,445
Depreciable Capital Assets:				
Buildings	\$ 120,207,464	\$ -	\$ -	\$ 120,207,464
Infrastructure and Other Improvements	950,226	-	-	950,226
Furniture and Equipment	1,578,834	317,854	321,581	1,575,107
Total Depreciable Capital Assets	122,736,524	317,854	321,581	122,732,797
Less, Accumulated Depreciation:				
Buildings	18,785,722	2,729,297	-	21,515,019
Infrastructure and Other Improvements	439,939	63,349	-	503,288
Furniture and Equipment	1,027,644	159,473	297,134	889,983
Total Accumulated Depreciation	20,253,305	2,952,119	297,134	22,908,290
Total Depreciable Capital Assets, Net	\$ 102,483,219	\$ (2,634,265)	\$ 24,447	\$ 99,824,507

Parking System
Notes to Financial Statements (Unaudited)
June 30, 2017 and 2016

5. DUE TO OTHER FUNDS

Another fund advanced the Parking System \$1,787,663 for the redemption of the Series 1995 capital improvement debt payable. The advance bears no interest, repayments were paid bi-annually through June 30, 2017 as scheduled. During fiscal year 2017 \$211,326 was repaid on this advance, accordingly, there is no balance remaining on this advance.

6. LONG-TERM LIABILITIES

Long-term liabilities of the Parking System at June 30, 2017, include capital improvement debt payable and compensated absences payable.

Capital Improvement Debt Payable.

The University issued, through the Division of Bond Finance, capital improvement debt payable totaling \$80,365,000 from the 2009 and 2013 capital investment debt payable series amounting to \$32,000,000 and \$48,365,000, respectively. The purpose of this capital investment debt payable is to finance the construction of six parking garages on the Modesto A. Maidique Campus. This capital improvement debt payable is secured by traffic and parking fees and other revenue generated through parking operations.

The State Board of Administration administers the principal and interest payments, investment of sinking fund resources, and compliance with reserve requirements.

The Parking System had the following capital improvement debt payable outstanding at June 30, 2017:

Capital Improvement Debt			Interest	
Type and Series	Amount of	Amount	Rates	Maturity
	Original Debt	Outstanding (1)	(Percent)	Date To
Parking Garage Debt				
2009 Parking Garage A&B	\$ 32,000,000	\$ 26,700,000	5.10 - 6.875	2039
2013 Parking Garage	<u>48,365,000</u>	<u>40,305,023</u>	3.00 - 5.25	2043
Total Parking Garage Debt	<u><u>\$ 80,365,000</u></u>	<u><u>\$ 67,005,023</u></u>		

Note: (1) Amount outstanding includes unamortized discounts and premiums, and deferred losses on refunding issues.

The Parking System has pledged a portion of future parking fees, and an assessed transportation fee per student to repay \$80,365,000 of capital improvement revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student parking garages. The bonds are payable solely from parking fees and assessed transportation fees per student and are payable through 2043. The Parking System has committed to appropriate each year from parking fees and assessed transportation fees per student amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$116,182,181, and principal and interest paid for the current year totaled \$6,751,180. Parking fees totaled \$10,702,378 and \$10,434,966 and assessed transportation fees totaled \$5,453,405 and \$5,155,865 for fiscal years June 30, 2017 and 2016, respectively.

Parking System
Notes to Financial Statements (Unaudited)
June 30, 2017 and 2016

6. LONG-TERM LIABILITIES (Continued)

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 3,280,000	\$ 3,614,423	\$ 6,894,423
2019	3,430,000	3,449,643	6,879,643
2020	3,005,000	3,274,903	6,279,903
2021	3,140,000	3,120,477	6,260,477
2022	3,250,000	3,003,355	6,253,355
2023-2027	9,465,000	13,252,995	22,717,995
2028-2032	11,645,000	10,449,137	22,094,137
2033-2037	14,635,000	6,656,787	21,291,787
2038-2042	12,425,000	2,253,188	14,678,188
2043	2,045,000	102,250	2,147,250
Subtotal	<u>66,320,000</u>	<u>49,177,158</u>	<u>115,497,158</u>
Plus: Net Capital Improvement Debt Payable, Premiums, and Losses on Bond Refundings	<u>685,023</u>	<u>-</u>	<u>685,023</u>
Total	<u>\$ 67,005,023</u>	<u>\$ 49,177,158</u>	<u>\$ 116,182,181</u>

Compensated Absences Payable.

Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. The Parking System's estimated liability for compensated absences, which includes the Parking System's share of the Florida Retirement System and FICA contributions, was \$150,859 and \$136,631 at June 30, 2017 and 2016, respectively. The current portion of the compensated absences liability is based on the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued liability leave.

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

FLORIDA INTERNATIONAL UNIVERSITY

For the Fiscal Year Ended
June 30, 2017



Sherrill F. Norman, CPA
Auditor General

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Dean C. Colson from 3-30-17	Dr. Kathleen L. Wilson ^b
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^a Student Body President.

^b Faculty Senate Chair.

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

The team leader was Raymond Ishmael, CPA, CFE, and the supervisor was Hector J. Quevedo, CPA.

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

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

AUDIT OBJECTIVES AND SCOPE

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

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

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2017. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

AUDIT METHODOLOGY

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



Sherrill F. Norman, CPA
Auditor General

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Florida International University, 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 Florida International University 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 Matter

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 2018, on our consideration of the Florida International University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant

agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is 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 Florida International University's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 26, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2017, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2017, and June 30, 2016.

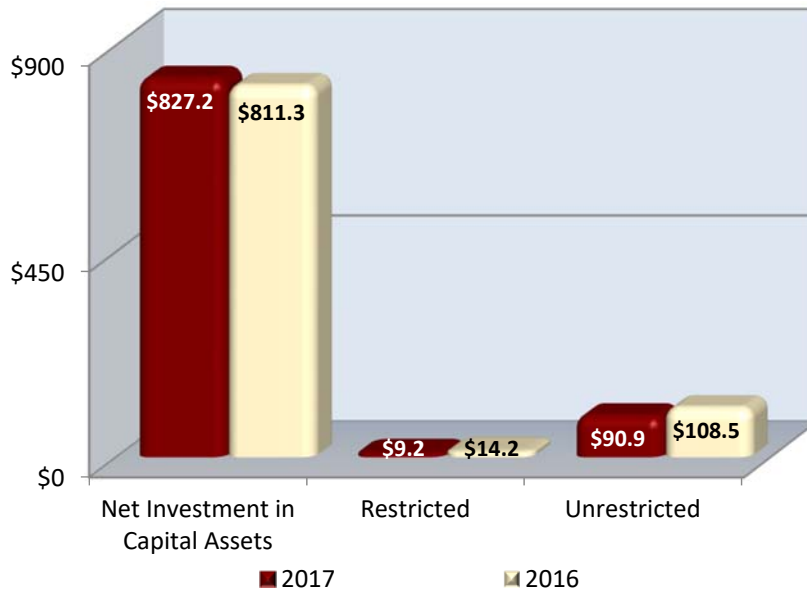
FINANCIAL HIGHLIGHTS

The University's assets totaled \$1.4 billion at June 30, 2017. This balance reflects a \$30.4 million, or 2.2 percent, increase as compared to the 2015-16 fiscal year, resulting from an increase in combined cash and cash equivalents and investments of \$27.6 million and an increase in nondepreciable capital assets of \$11.2 million. These increases were partially offset by decreases of \$7.1 million in receivables, due from students for tuition and fees, and due from the State for capital projects. Deferred outflows of resources increased \$47.7 million due to pension-related activity as required to be reported under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Liabilities increased by \$102.5 million, or 21 percent, totaling \$589.9 million at June 30, 2017, as compared to \$487.4 million at June 30, 2016. These increases were offset by a \$17.7 million decrease in deferred inflows of resources from pension-related activity. As a result, the University's net position decreased by \$6.7 million, resulting in a year-end balance of \$927.3 million.

The University's operating revenues totaled \$519.5 million for the 2016-17 fiscal year, representing a \$9.4 million, or 1.8 percent increase compared to the 2015-16 fiscal year. Major components of operating revenues are student tuition and fees, auxiliary enterprise revenues, and grants and contracts. The overall increase in operating revenue is mainly due to increases in net tuition and fees revenue of \$5.9 million, grant and contracts revenue of \$1.2 million, and other operating revenue of \$4.3 million. These increases were offset by a decrease in auxiliary enterprise revenue of \$2.4 million. Operating expenses totaled \$966.1 million for the 2016-17 fiscal year, representing an increase of 6.2 percent as compared to the 2015-16 fiscal year due mainly to increases in compensation and employee benefits of \$46.7 million, scholarships and waivers expense of \$4.9 million and depreciation expense of \$3 million.

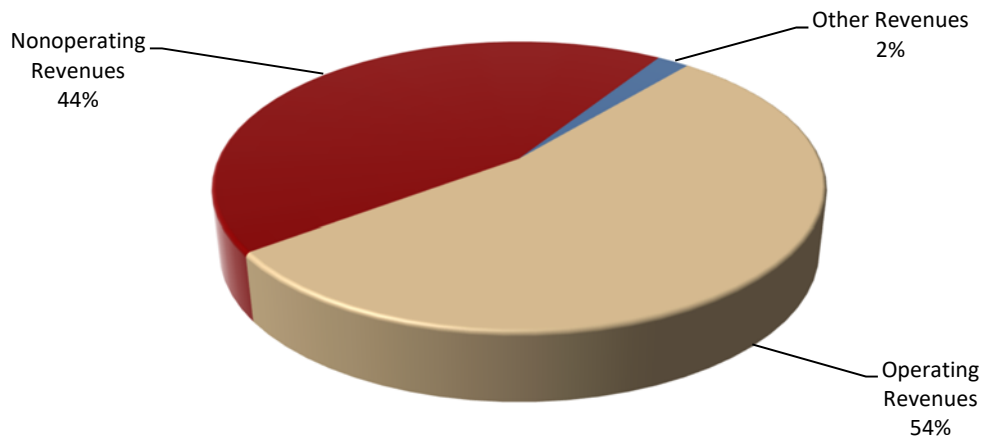
Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University's comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, is shown in the following graph:

**Net Position
(In Millions)**



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

**Total Revenues
2016-17 Fiscal Year**



OVERVIEW OF FINANCIAL STATEMENTS

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

- Florida International University Foundation, Inc. (Foundation)
- FIU Athletics Finance Corporation (Finance Corporation)
- Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. (Health Care Network)

Based on the application of the criteria for determining component units, the Foundation, Finance Corporation, and Health Care Network are included within the University reporting entity as discretely presented component units. Information regarding these discretely presented component units, including summaries of their separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the discretely presented component units. For those component units reporting under GASB standards, MD&A information is included in their separately issued audit reports.

The Statement of Net Position

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

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

Condensed Statement of Net Position at June 30

(In Millions)

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets	\$ 407.5	\$ 388.0
Capital Assets, Net	987.2	976.7
Other Noncurrent Assets	17.0	16.6
Total Assets	<u>1,411.7</u>	<u>1,381.3</u>
Deferred Outflows of Resources	<u>107.0</u>	<u>59.3</u>
Liabilities		
Current Liabilities	69.6	65.1
Noncurrent Liabilities	520.3	422.3
Total Liabilities	<u>589.9</u>	<u>487.4</u>
Deferred Inflows of Resources	<u>1.5</u>	<u>19.2</u>
Net Position		
Net Investment in Capital Assets	827.2	811.3
Restricted	9.2	14.2
Unrestricted	90.9	108.5
Total Net Position	<u>\$ 927.3</u>	<u>\$ 934.0</u>

Total assets as of June 30, 2017, increased by \$30.4 million, or 2.2 percent. This increase is due to an increase in combined cash and cash equivalents and investments of \$27.6 million primarily driven by collection of receivables due from students for tuition and fees, and due from the State for capital projects. Also contributing to the increase in total assets is an increase of \$11.2 million of nondepreciable capital assets, primarily construction in progress. These increases were partially offset by the decrease in receivables due from students and from the State of \$7.1 million. Deferred outflows of resources increased \$47.7 million due to the annual recognition of the University's proportionate share of the actuarially determined amounts related to the Florida Retirement System (FRS) pension plans. Total liabilities as of June 30, 2017, increased by \$102.5 million, or 21 percent. The increase was primarily due to an increase of \$80.6 million for the University's proportionate share of the FRS net pension liabilities, and an increase in other postemployment benefit (OPEB) of \$20 million. Deferred inflows of resources decreased by \$17.7 million due to the annual recognition of the University's proportionate share of the actuarially determined amounts related to the FRS pension plans.

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

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

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

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

(In Millions)

	<u>2016-17</u>	<u>2015-16</u>
Operating Revenues	\$ 519.5	\$ 510.1
Less, Operating Expenses	<u>966.1</u>	<u>909.6</u>
Operating Loss	(446.6)	(399.5)
Net Nonoperating Revenues	<u>420.2</u>	<u>390.1</u>
Loss Before Other Revenues,	(26.4)	(9.4)
Other Revenues	<u>19.7</u>	<u>31.6</u>
Net Increase (Decrease) In Net Position	(6.7)	22.2
Net Position, Beginning of Year	<u>934.0</u>	<u>911.8</u>
Net Position, End of Year	<u>\$ 927.3</u>	<u>\$ 934.0</u>

Operating Revenues

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

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

**Operating Revenues
For the Fiscal Years**

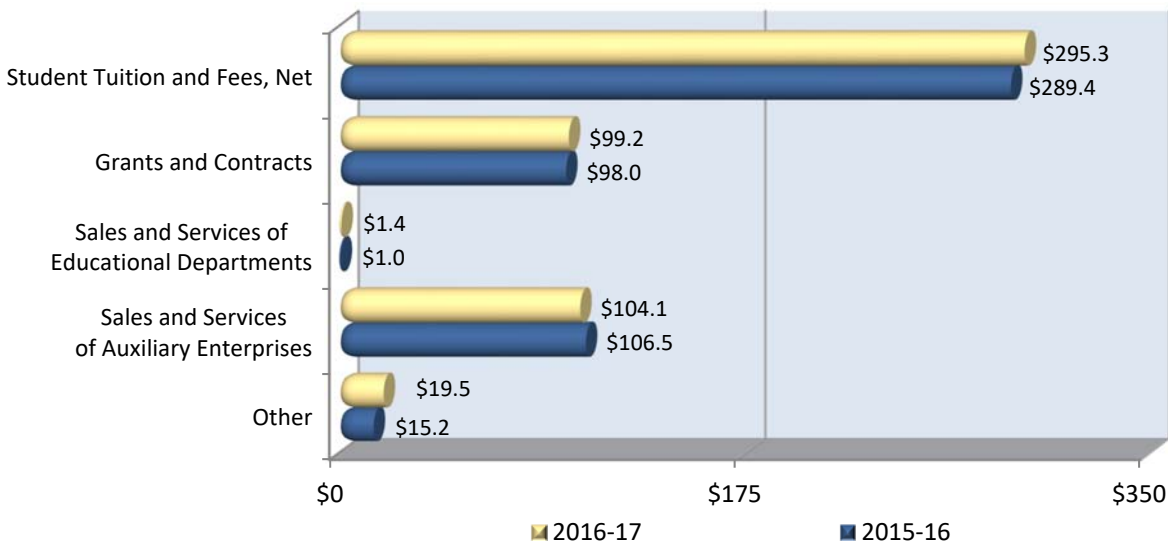
(In Millions)

	<u>2016-17</u>	<u>2015-16</u>
Student Tuition and Fees, Net	\$ 295.3	\$ 289.4
Grants and Contracts	99.2	98.0
Sales and Services of Educational Departments	1.4	1.0
Sales and Services of Auxiliary Enterprises	104.1	106.5
Other	<u>19.5</u>	<u>15.2</u>
Total Operating Revenues	<u>\$ 519.5</u>	<u>\$ 510.1</u>

The following chart presents the University's operating revenues for the 2016-17 and 2015-16 fiscal years:

Operating Revenues

(In Millions)



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

- Net student tuition and fees revenue increased \$5.9 million or 2 percent. This increase was primarily driven by an increase of 14.9 percent in out-of-State undergraduate student enrollment, which generated incremental revenue from non-resident tuition. Additionally, an increase in overall undergraduate enrollment was driven by an increase in online student enrollment.
- Grants and contracts overall revenue increased \$1.2 million, or 1.2 percent. This increase resulted mainly from increased revenue earned from nongovernmental grants and contracts of \$3.5 million for cancer, marine science, and global health research. There was also an increase of \$1.5 million in revenue from State and local grants. These increases were offset by a decrease of \$3.9 million in Federal grants and contracts revenue primarily due to the reclassification of revenues related to the Federal Work Study America Reads program as Federal Student Financial Aid revenue during the 2016-17 fiscal year.
- Sales and Services of Auxiliary Enterprises revenue decreased \$2.4 million, or 2.3 percent. The decrease was mainly due to a decrease of \$1.2 million in game guarantee revenue earned from fewer non-conference football games played on the road during the 2016-17 fiscal year than during the 2015-16 fiscal year. Also contributing to the decrease was a reduction of \$1.2 million in revenue from cost plus programs.
- Other operating revenue increased \$4.3 million or 28.3 percent. This increase was in part due to \$1.4 million in incremental revenues from the Health Care Network (HCN), as part of the adoption of a new business model implemented during the 2015-16 fiscal year, and an increase of \$2.1 million from a new operating structure for the international medical students clinical rotation program that now resides under the College of Medicine instead of HCN.

Operating Expenses

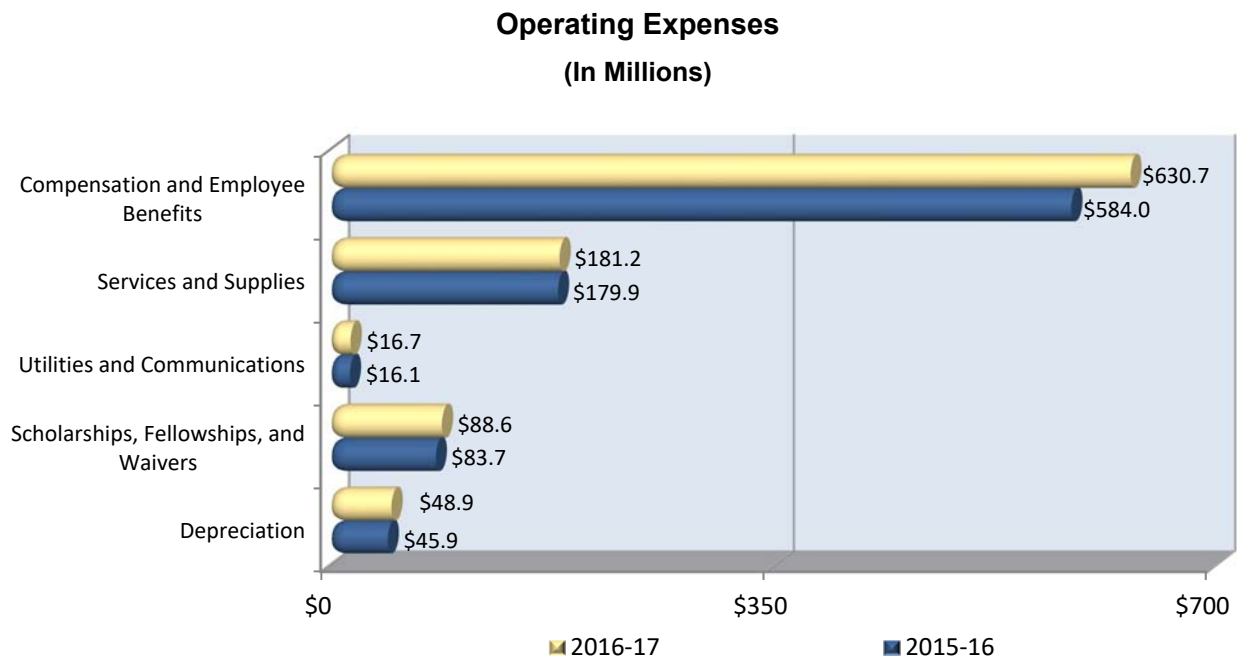
Expenses are categorized as operating or nonoperating. The majority of the University's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University has

chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to financial statements.

The following summarizes operating expenses by natural classification for the 2016-17 and 2015-16 fiscal years:

Operating Expenses For the Fiscal Years		
(In Millions)		
	<u>2016-17</u>	<u>2015-16</u>
Compensation and Employee Benefits	\$ 630.7	\$ 584.0
Services and Supplies	181.2	179.9
Utilities and Communications	16.7	16.1
Scholarships, Fellowships, and Waivers	88.6	83.7
Depreciation	48.9	45.9
Total Operating Expenses	\$ 966.1	\$ 909.6

The following chart presents the University's operating expenses for the 2016-17 and 2015-16 fiscal years:



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

- Compensation and employee benefits increased \$46.7 million, or 8 percent. This increase was primarily due to an increase in the number of employees combined with a 1 percent across the board salary increase and a 0.5 percent merit increase for eligible employees. Additionally, there was an increase of \$17.2 million in pension expense resulting from the effect of pension related activity.
- Scholarships, fellowships, and waivers expenses increased by \$4.9 million, or 5.9 percent. The increase was primarily driven by waiver increases of \$3.5 million for the American University of

Antigua certificate program and the Shorelight Waiver program. There was also an increase of \$1.4 million in incremental expenses for non-resident waivers due to a change in the eligibility requirements that allowed more students to qualify for this waiver.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2016-17 and 2015-16 fiscal years:

Nonoperating Revenues (Expenses)		
For the Fiscal Years		
(In Millions)		
	2016-17	2015-16
State Noncapital Appropriations	\$ 278.0	\$ 261.6
Federal and State Student Financial Aid	110.9	112.1
Nonoperating Donations	23.7	-
Investment Income	13.7	3.2
Other Nonoperating Revenues	1.7	21.4
Loss on Disposal of Capital Assets	(0.4)	(0.1)
Interest on Capital Asset-Related Debt	(7.2)	(7.5)
Other Nonoperating Expenses	(0.2)	(0.6)
Net Nonoperating Revenues	\$ 420.2	\$ 390.1

Net nonoperating revenues increased by \$30.1 million, due mainly to the following:

- State noncapital appropriation increased \$16.4 million, or 6.3 percent, due to increases of \$9 million in incremental funding under the Board of Governors' performance model, \$2.9 million of additional appropriations, \$1.2 million of incremental appropriations for risk management insurance, \$2.6 million for health insurance adjustments, and \$0.7 million for retirement benefit adjustments.
- Nonoperating donations consist of reimbursements received from the Foundation which in prior years were reported as other nonoperating revenue. During the 2016-17 fiscal year there was an increase of \$4 million in donations received.
- Investment income increased by \$10.5 million, or 328.1 percent, primarily due to higher investment returns during the 2016-17 fiscal year.
- Other nonoperating revenue decreased by \$19.7 million mainly due to nonoperating donations revenue received from the Foundation now reported in a separate category as nonoperating donations.

Other Revenues

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2016-17 and 2015-16 fiscal years:

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

	2016-17	2015-16
State Capital Appropriations	\$ 16.7	\$ 26.2
Capital Grants, Contracts, Donations, and Fees	3.0	5.4
Total	\$ 19.7	\$ 31.6

Total other revenues decreased by \$11.9 million, or 37.7 percent, due to a \$9.5 million decrease in State capital appropriations revenue earned for capital projects and a \$2.4 million decrease in capital grants and donations.

The Statement of Cash Flows

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

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

**Condensed Statement of Cash Flows
For the Fiscal Years
(In Millions)**

	2016-17	2015-16
Cash Provided (Used) by:		
Operating Activities	\$ (351.5)	\$ (324.5)
Noncapital Financing Activities	414.1	392.5
Capital and Related Financing Activities	(48.6)	(48.1)
Investing Activities	(10.4)	(21.4)
Net Increase (Decrease) in Cash and Cash Equivalents	3.6	(1.5)
Cash and Cash Equivalents, Beginning of Year	4.1	5.6
Cash and Cash Equivalents, End of Year	7.7	4.1

Major sources of funds came from State noncapital appropriations (\$278 million), Federal Direct Student Loan receipts (\$283.7 million), net student tuition and fees (\$296.4 million), grants and contracts (\$101.6 million), and sales and services of auxiliary enterprises (\$104.5 million), proceeds from sales and maturities of investments (\$867.6 million), State capital appropriations (\$19.5 million), Federal and State student financial aid (\$134.7 million), and other operating receipts (\$19.6 million). Major uses of funds were for payments made to and on behalf of employees (\$589.3 million), payments to suppliers

(\$197.2 million), disbursements to students for Federal Direct Student Loans (\$283.2 million), purchases of capital assets (\$56.8 million), purchases of investments (\$884.3 million), and payments to and on behalf of students for scholarships and fellowships (\$88.6 million).

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION
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Capital Assets

At June 30, 2017, the University had \$1.6 billion in capital assets, less accumulated depreciation of \$566.3 million, for net capital assets of \$987.2 million. Depreciation charges for the current fiscal year totaled \$48.9 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30		
(In Millions)		
	2017	2016
Land	\$ 30.7	\$ 30.4
Works of Art and Historical Treasures	4.9	4.6
Construction in Progress	72.4	61.8
Buildings	790.9	787.8
Infrastructure and Other Improvements	18.9	19.3
Furniture and Equipment	40.8	39.0
Library Resources	27.3	31.1
Property Under Capital Leases and Leasehold Improvements	0.3	1.4
Computer Software	1.0	1.3
Capital Assets, Net	\$ 987.2	\$ 976.7

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

Capital Expenses and Commitments

Major capital expenses through June 30, 2017, were incurred on the following projects: \$13.2 million for the Recreation Center expansion, \$7.3 million for Auxiliary Construction Projects I, and \$3.3 million for the Athletic Practice Fields. The University's construction commitments at June 30, 2017, are as follows:

	Amount (In Millions)
Total Committed	\$ 133.2
Completed to Date	(72.5)
Balance Committed	\$ 60.7

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

Debt Administration

As of June 30, 2017, the University had \$160 million in outstanding capital improvement debt payable and installment purchase payable, representing a decrease of \$5.5 million, or 3.3 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt at June 30 (In Millions)

	<u>2017</u>	<u>2016</u>
Capital Improvement Debt	\$ 158.1	\$ 165.3
Capital Lease	-	0.2
Installment Purchase Payable	<u>1.9</u>	<u>-</u>
Total	<u>\$ 160.0</u>	<u>\$ 165.5</u>

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Florida's economy continues to be strong; steady general revenue growth in recent years has resulted in increased funding for education, social services, and other vital state commitments. State estimates of general revenue growth have been on target, fiscal year 2016-17 general revenue collections modestly exceeded the March 2017 projected growth of 4.4 percent with actual revenue growing 4.5 percent compared to the prior year, and the latest projections show this trend continuing. However, estimates indicate State spending on critical needs is likely to exceed revenue growth resulting in an estimated shortfall of \$1.15 billion by fiscal year 2019-20. Additionally, unanticipated costs due to the preparation and recovery from Hurricane Irma will likely contribute to a greater shortfall.

During the extended 2017 Legislative Session, the Legislature introduced Senate Bill 374 which included a continued focus on affordability and accountability, established on-time graduation as a goal for higher education, required universities to implement a block tuition policy to increase access to higher education, and established the World Class Faculty Scholar Program and University Professional and Graduate Degree Excellence Program to recruit and retain elite faculty and upgrade research facilities. While the bill was ultimately vetoed by the Governor, funding for expanded student financial aid to promote on-time graduation and the programs to recruit and retain elite faculty were approved in the General Appropriations Act. The Legislature provided an additional \$70 million for the World Class Faculty Scholar Program and \$50 million for the University Professional and Graduate Degree Excellence Program, of which FIU received allocations of \$7.2 and \$8.9 million, respectively.

Additionally, the 2017-18 fiscal year budget includes \$520 million of performance funds for the State University System (SUS), a \$20 million increase from the prior year, and represents a State investment of \$245 million and SUS investment from base funds of \$275 million. The Florida Board of Governors (BOG) continues to modify the performance funding model with changes to metrics, and updates to definitions and benchmarks; FIU ranked eighth with 68 points and received a total of \$58.3 million, an

increase of \$2.2 million over the prior year's allocation. In addition to the performance funding, FIU received \$5.4 million for retirement contributions, health and risk management insurance pass-throughs, and \$0.6 million for Legislative Budget Requests (LBR) for specific programs (net of a \$5.1 million reduction after a \$5.7 million reduction for prior year LBR). Tuition rates at all levels are unchanged for the 2017-18 fiscal year. Lastly, the FIU Herbert Wertheim College of Medicine remains at maximum capacity of 480 medical students and has garnered a reputation of producing local, global, and holistic physicians and community leaders.

The Governor, legislature, and BOG continue to emphasize affordability and accountability to ensure a positive return on the tax dollars invested in the SUS. FIU continues to rise to the challenge by scrutinizing opportunities for improvement in areas not previously contemplated and with a relentless focus on positive outcomes. The FIU *Beyond Possible 2020* strategic plan is aligned with the BOG performance measures and provides the road map to achieve these results. FIU is firmly integrated with and intrinsic to the community, and is dedicated to creating world-class thinkers, innovators, and leaders who contribute positively to the development of the community and State.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Chief Financial Officer and Senior Vice President for Finance and Administration, Dr. Kenneth Jessell, at Florida International University, 11200 Southwest 8th Street, Miami, Florida 33199.

BASIC FINANCIAL STATEMENTS

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

June 30, 2017

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 7,570,322	\$ 27,778,997
Investments	331,471,534	250,043,092
Accounts Receivable, Net	24,229,860	71,095,590
Loans and Notes Receivable, Net	572,250	-
Due from State	40,105,032	-
Due from Component Units/University	3,182,319	226,354
Inventories	381,282	-
Other Current Assets	37,062	1,765,769
Total Current Assets	407,549,661	350,909,802
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	153,856	-
Restricted Investments	6,462,163	2,693,462
Loans and Notes Receivable, Net	1,740,187	-
Depreciable Capital Assets, Net	879,206,926	16,009,256
Nondepreciable Capital Assets	108,034,398	61,731
Due from Component Units/University	8,567,855	-
Other Noncurrent Assets	-	19,452,574
Total Noncurrent Assets	1,004,165,385	38,217,023
Total Assets	1,411,715,046	389,126,825
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	106,949,681	-
Accumulated Decrease in Fair Value of Hedging		
Derivatives	-	2,266,536
Deferred Amount on Debt Refundings	-	236,521
Total Deferred Outflows of Resources	106,949,681	2,503,057
LIABILITIES		
Current Liabilities:		
Accounts Payable	25,713,146	1,551,059
Construction Contracts Payable	6,641,935	-
Salary and Wages Payable	13,685,411	-
Deposits Payable	2,541,099	-
Due to State	168,992	-
Due to Component Units/University	238,112	2,681,274
Unearned Revenue	6,793,152	1,556,464
Other Current Liabilities	355,553	194,617
Long-Term Liabilities - Current Portion:		
Bonds Payable	-	1,150,000
Capital Improvement Debt Payable	7,494,422	-
Notes Payable	-	825,000
Installment Purchase Payable	477,561	-
Compensated Absences Payable	3,782,939	-
Liability for Self-Insured Claims	105,196	-
Net Pension Liability	1,621,255	-
Total Current Liabilities	69,618,773	7,958,414

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

June 30, 2017

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	-	28,590,000
Capital Improvement Debt Payable	150,581,478	-
Notes Payable	-	3,749,758
Installment Purchase Payable	1,469,013	-
Compensated Absences Payable	41,150,417	-
Due to Component Units/University	-	8,567,855
Other Postemployment Benefits Payable	88,101,000	-
Net Pension Liability	200,459,878	-
Unearned Revenues	36,044,103	-
Liability for Self-Insured Claims	68,796	-
Other Long-Term Liabilities	2,384,877	8,076,382
	520,259,562	48,983,995
Total Noncurrent Liabilities		
	589,878,335	56,942,409
Total Liabilities		
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	1,486,004	-
	1,486,004	-
NET POSITION		
Net Investment in Capital Assets	827,218,850	10,756,353
Restricted for Nonexpendable:		
Endowment	-	212,906,553
Restricted for Expendable:		
Debt Service	2,883,578	-
Loans	819,538	-
Capital Projects	2,290,624	-
Other	3,235,828	101,704,424
Unrestricted	90,851,970	9,320,143
	927,300,388	334,687,473
TOTAL NET POSITION	\$ 927,300,388	\$ 334,687,473

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

FLORIDA INTERNATIONAL UNIVERSITY
A Component Unit of the State of Florida
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

	<u>University</u>	<u>Component Units</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$136,587,731	\$ 295,346,205	\$ -
Federal Grants and Contracts	72,588,869	-
State and Local Grants and Contracts	9,862,638	-
Nongovernmental Grants and Contracts	16,694,934	-
Sales and Services of Educational Departments	1,384,865	-
Sales and Services of Auxiliary Enterprises (\$29,791,737 Pledged for Housing Facility Capital Improvement Debt and \$16,155,783 Pledged for the Parking Facility Capital Improvement Debt)	104,059,958	-
Sales and Services of Component Units	-	9,054,771
Gifts and Donations	-	27,336,869
Interest on Loans and Notes Receivable	58,425	-
Other Operating Revenues	19,480,713	9,270,069
Total Operating Revenues	519,476,607	45,661,709
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	630,656,497	-
Services and Supplies	181,244,661	30,387,554
Utilities and Communications	16,672,092	196,242
Scholarships, Fellowships, and Waivers	88,603,383	-
Depreciation	48,895,387	779,767
Other Operating Expenses	-	16,920,608
Total Operating Expenses	966,072,020	48,284,171
Operating Loss	(446,595,413)	(2,622,462)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	278,033,226	-
Federal and State Student Financial Aid	110,935,162	-
Noncapital Grants, Contracts, and Gifts	23,675,371	-
Investment Income	13,650,723	29,557,434
Other Nonoperating Revenues	1,667,777	-
Gain (Loss) on Disposal of Capital Assets	(434,587)	559,688
Interest on Capital Asset-Related Debt	(7,175,352)	(1,459,268)
Other Nonoperating Expenses	(116,822)	(164,950)
Net Nonoperating Revenues	420,235,498	28,492,904
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(26,359,915)	25,870,442
State Capital Appropriations	16,676,981	-
Capital Grants, Contracts, Donations, and Fees	2,954,631	-
Other Expenses	-	(4,281,937)
Increase (Decrease) in Net Position	(6,728,303)	21,588,505
Net Position, Beginning of Year	934,028,691	313,098,968
Net Position, End of Year	\$ 927,300,388	\$ 334,687,473

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

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

For the Fiscal Year Ended June 30, 2017

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 296,422,171
Grants and Contracts	101,620,657
Sales and Services of Educational Departments	1,384,865
Sales and Services of Auxiliary Enterprises	104,535,404
Interest on Loans and Notes Receivable	60,398
Payments to Employees	(589,280,829)
Payments to Suppliers for Goods and Services	(197,185,274)
Payments to Students for Scholarships and Fellowships	(88,603,383)
Payments on Self-Insured Claims	(18,138)
Loans Issued to Students	(4,562,273)
Collection on Loans to Students	4,582,463
Other Operating Receipts	19,563,429
	(351,480,510)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	278,033,226
Federal and State Student Financial Aid	134,739,985
Federal Direct Loan Program Receipts	283,725,916
Federal Direct Loan Program Disbursements	(283,215,266)
Operating Subsidiaries and Transfers	464,637
Net Change in Funds Held for Others	45,893
Other Nonoperating Receipts	336,356
Other Nonoperating Disbursements	(19,744)
	414,111,003
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	19,539,156
Capital Grants, Contracts, Donations and Fees	2,389,827
Other Receipts for Capital Projects	1,331,426
Purchase or Construction of Capital Assets	(56,816,767)
Principal Paid on Capital Debt and Leases	(7,556,507)
Interest Paid on Capital Debt and Leases	(7,474,774)
	(48,587,639)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	867,591,056
Purchases of Investments	(884,335,925)
Investment Income	6,285,151
	(10,459,718)
Net Increase in Cash and Cash Equivalents	3,583,136
Cash and Cash Equivalents, Beginning of Year	4,141,042
Cash and Cash Equivalents, End of Year	\$ 7,724,178

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

For the Fiscal Year Ended June 30, 2017

	<u>University</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (446,595,413)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	48,895,387
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	2,597,352
Inventories	36,754
Other Assets	2,659
Accounts Payable	571,313
Salaries and Wages Payable	3,029,635
Deposits Payable	590,479
Compensated Absences Payable	3,171,795
Unearned Revenue	1,078,457
Liability for Self-Insured Claims	(33,168)
Pension Liability	80,586,098
Deferred Outflows of Resources Related to Pensions	(47,640,565)
Deferred Inflows of Resources Related to Pensions	(17,756,293)
Other Postemployment Benefits Payable	19,985,000
NET CASH USED BY OPERATING ACTIVITIES	\$ (351,480,510)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES	
Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 7,028,349
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (434,587)
Donations of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 425,207

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

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

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following direct-support organizations (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011) are included within the University reporting entity as discretely presented component units. These legally separate, not-for-profit, corporations are organized and operated to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services and are governed by separate boards. The Statutes authorize these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- Florida International University Foundation, Inc. (Foundation) – The purpose of the Foundation is to encourage, solicit, receive, and administer gifts and bequests of property and funds for the advancement of the University and its objectives.
- FIU Athletics Finance Corporation (Finance Corporation) – The purpose of the Finance Corporation includes the support to the University in matters pertaining to the financing of the University's football stadium and, subsequently, the management and operation of the facility.
- Florida International University Academic Health Center Care Network Faculty Group Practice, Inc. (Health Care Network) – The purpose of the Health Care Network is to improve and support health education at the University.

The financial activities of the Florida International University Research Foundation, Inc. (Research Foundation) are not included in the University's financial statements. The purpose of the Research Foundation includes the promotion and encouragement of, and assistance to, the research and training activities of faculty, staff, and students of the University. It receives income from contracts, grants, and other sources, including, but not limited to, income derived from or related to the development and commercialization of University work products. The total assets and operating revenues related to the Research Foundation are \$333,928 and \$10,000 respectively. The amounts represent less than 1 percent of the total aggregate component units' assets and operating revenues.

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

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

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

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

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

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, and investment income (net of unrealized gains or losses on investments), and revenue for capital 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 scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is actually paid by the student or the third party making payment on behalf of the student. The University applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party aid.

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

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand and cash in demand accounts. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

Concentration of Credit Risk – Component Units. Financial instruments that potentially subject the Foundation to concentration of credit risk consist principally of cash and cash equivalents in banks, investments, and promises to give.

Financial instruments that potentially subject the Finance Corporation to concentration of credit risk consist principally of cash in banks and investments.

In addition to insurance provided by the Federal Depository Insurance Corporation (FDIC), the Foundation, the Finance Corporation, and the Health Care Network deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, Florida Security for Public Deposits Act, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or another banking institution, eligible collateral. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. Accordingly, all amounts reported as deposits, with the exception noted above, are insured or collateralized with securities held by the entity or its agent in the entity's name.

Capital Assets. University capital assets consist of land, works of art and historical treasures, construction in progress, buildings, infrastructure and other improvements, furniture and equipment, library resources, property under capital leases and leasehold improvements, and computer software. These assets are capitalized and recorded at cost at the date of acquisition or at acquisition value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$250 for library resources, \$5,000 for tangible personal property, \$50,000 for new buildings, leasehold improvements, and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 20 to 50 years
- Infrastructure and Other Improvements – 15 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Property Under Capital Leases – 5 years
- Leasehold Improvements – Various based on lease terms
- Computer Software – 5 years

Depreciable assets of the Foundation are stated at cost and are net of accumulated depreciation of \$6,295,257. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years.

Depreciable assets of the Finance Corporation are stated at cost and are net of accumulated depreciation of \$18,250. Depreciation is provided using the straight-line method over the estimated useful lives of the assets (5 years).

Depreciable assets of the Health Care Network are stated at cost and are net of accumulated depreciation of \$268,390. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 15 years.

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable, installment purchases payable, compensated absences payable, other postemployment benefits payable, unearned revenue, liability for self-insured claims, net pension liability, and other long-term liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized premium and deferred losses on refunding. The University amortizes debt premiums over the life of the debt using the straight-line method. Deferred losses on refunding are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method.

Pensions. For purposes of measuring the net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and HIS fiduciary net positions have been determined on the same basis as they are reported by the FRS and the HIS plans. 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. 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; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open end or closed end management type investment companies; and other investments approved by the Board of Trustees as authorized by law. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

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

All of the University's recurring fair value measurements as of June 30, 2017, are valued using quoted market prices (Level 1 inputs), with the exception of corporate equities, fixed income and bonds, and commodities which are valued using a matrix pricing model (Level 2 inputs), investments with the State Treasury which are valued based on the University's share of the pool and other investments (Level 3 inputs) and limited partnerships and private equities which are valued based on net asset value (NAV).

The University's investment in money market funds are reported at amortized cost of \$66,782,402 according to GASB Statement No. 72.

The University's investments at June 30, 2017, are reported as follows:

Investments by fair value level	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
External Investment Pool:				
State Treasury Special Purpose Investment Account	\$ 10,934,562	\$ -	\$ -	\$ 10,934,562
SBA Debt Service Accounts	2,861,991	2,861,991	-	-
Mutual Funds				
Equities	72,942,576	-	72,942,576	-
Fixed Income and Bond Mutual Funds	126,331,946	41,783,319	84,548,627	-
Commodities	11,297,719	-	11,297,719	-
Other Investments	3,881,701	-	-	3,881,701
Total investments by fair value level	\$228,250,495	\$ 44,645,310	\$ 168,788,922	\$ 14,816,263
Investments measured at the net asset value (NAV)				
Limited Partnerships	28,043,595			
Equities	14,857,205			
Total investments measured at NAV	42,900,800			
Total investments measured at fair value	\$271,151,295			

The valuation method for investments measured at the NAV per share (or its equivalent) is presented in the following table:

Investments measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Partnerships	\$ 28,043,595	\$ -	Quarterly/Annually	90 Days
Equities	14,857,205	7,166,880	Illiquid	N/A
Total investments measured at the NAV	\$ 42,900,800			

Limited Partnerships: This category includes investments in a fund that invests in a portfolio of limited partnerships. The managers pursue multiple strategies to diversify risk and reduce volatility. The fair values of the investments have been determined by using the NAV per share of the investments. Redemption requests are received quarterly and require a 90 day written notice. Proceeds of the redemption, up to 90 percent, are available 27 calendar days after the redemption. The remaining 10 percent of the funds, in a complete liquidation, are available on the first week of April, after the redemption.

Equities: This category includes investments in 2 private equity funds. Each fund invests in equity securities and debt of the private companies or conduct buyouts of public companies that result in a delisting of public equity. The nature of the investment in this category prohibits redemptions through the duration of the partnerships, which range between 10 to 15 years. Distributions are received through the liquidation of underlying assets of the funds.

External Investment Pools.

The University reported investments at fair value totaling \$ 10,934,562 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 carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.8 years and fair value factor of 0.9923 at June 30, 2017. Participants contribute to the State Treasury SPIA investment pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

State Board of Administration Debt Service Accounts.

The University reported investments totaling \$2,861,991 at June 30, 2017, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. The University's investments consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value. The University relies on policies developed by the SBA for managing interest rate risk and credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Fixed Income and Bond Mutual Funds.

The University invested in various mutual funds in accordance with the University's investment policy. The following risks apply to the University's fixed income and bond mutual fund investments:

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(6), Florida Statutes, the University's investments in securities must provide sufficient liquidity to pay obligations as they come due.

The future maturities of the securities held in the fixed income and bond mutual funds at June 30, 2017, are as follows:

University Debt Investment Maturities

<u>Type of Investment</u>	<u>Fair Market Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Short Term Bond Fund	\$ 20,173,448	\$ 4,599,593	\$ 15,573,855	\$ -	\$ -
Fixed Income Mutual Fund	44,463,669	1,356,142	12,089,672	21,462,613	9,555,242
TIPS Index Fund	26,317,942	15,379	9,375,171	11,640,048	5,287,344
High Yield Bond Mutual Fund	21,609,871	2,334,920	8,463,323	9,641,761	1,169,867
Credit Fixed Income	13,767,016	2,860,447	3,456,452	3,011,996	4,438,121
Total	\$ 126,331,946	\$ 11,166,481	\$ 48,958,473	\$ 45,756,418	\$ 20,450,574

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2017, the securities held in the fixed income and bond mutual funds had credit quality ratings by a nationally-recognized rating agency (i.e., Standard & Poor's or Moody's), as follows:

University Debt Investment Credit Quality Ratings

<u>Type of Investment</u>	<u>Fair Value</u>	<u>AAA / Aaa</u>	<u>AA / Aa</u>	<u>A</u>	<u>BBB / Baa to Not Rated</u>
Short Term Bond Fund	\$ 20,173,448	\$ 7,201,960	\$ 1,916,472	\$ 5,164,387	\$ 5,890,629
Fixed Income Mutual Fund	44,463,669	27,389,620	1,689,619	3,957,267	11,427,163
TIPS Index Fund	26,317,942	26,312,681	-	-	5,261
High Yield Bond Mutual Fund	21,609,871	183,736	-	81,419	21,344,716
Credit Fixed Income	13,767,016	1,599,222	1,530,475	4,711,236	5,926,083
Total	\$126,331,946	\$ 62,687,219	\$ 5,136,566	\$ 13,914,309	\$ 44,593,852

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's investment policy addresses the issue of concentration of credit risk by establishing the following restrictions:

- Maximum position in an individual security (excluding government securities) must not exceed 5 percent of the account market value.
- Maximum position in any one issuer (excluding government securities) must not exceed 5 percent of the account market value.

Discretely Presented Component Unit Investments.

The Foundation's investments at June 30, 2017, are reported at fair value as follows:

	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Domestic Equities	\$ 2,635,129	\$ 2,635,129	\$ -	\$ -
Global Equities	22,538,944	22,538,944	-	-
Fixed Income	27,987,677	27,987,677	-	-
Real Assets	7,082,229	7,082,229	-	-
Total investments by fair value level	\$ 60,243,979	\$ 60,243,979	\$ -	\$ -
Investments measured at the net asset value (NAV)				
Domestic Equities	36,093,692			
Global Equities	51,203,038			
Fixed Income	4,920,123			
Real Assets	3,339,909			
Hedge Funds	60,482,689			
Private Investments	33,016,918			
Total investments measured at NAV	189,056,369			
Total investments measured at fair value	\$ 249,300,348			

The valuation method for investments measured at the NAV per share (or its equivalent) is presented in the following table:

Investments Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equities:				
Domestic Equities	\$ 36,093,692	\$ -	Monthly/Quarterly	5 - 45 Days
Global Equities	42,254,571	-	Monthly/Quarterly	6 - 60 Days
Emerging Markets	8,948,467	-	Monthly	7 - 30 Days
Fixed Income:				
Domestic Fixed Income	4,918,923	-	Daily	2 Days
Global Bonds	1,200	-	Monthly	10 Days
Real Assets:				
Natural Resource Equities	3,339,909	-	Monthly	30 Days
Hedge Funds:				
Fund of Funds	1,092,842	-	Quarterly	90 Days
Long/Short Equity	35,715,112	-	Quarterly - Every 3 Years	30 - 180 Days
Event Driven/Open Mandate	16,694,043	-	Quarterly - Annually	30 - 90 Days
Global Macro	6,980,692	-	Monthly	3 - 15 Days
Private Investments:				
Private Equity	16,985,435	15,839,590	Illiquid	N/A
Venture Capital	16,031,483	3,494,428	Illiquid	N/A
Total Investments Measured at the NAV	\$ 189,056,369	\$ 19,334,018		

Net Asset Value.

The investments held at net asset value reflect:

Domestic equities: This category includes investments in publicly listed equities of companies domiciled in the U.S.

Global equities: This category includes investments in publicly listed equities of companies domiciled globally.

Emerging markets: This category includes investments in publicly listed equities of companies listed in markets which have been categorized as emerging.

Domestic fixed income: This category includes investments in publicly traded debt instruments traded in the U.S.

Global bonds: This category includes investments in globally listed public debt instruments.

Natural resources equities: This category includes investments in publicly listed equities of companies that derive a substantial portion of their operations from natural resources related business operations.

Fund of funds: This category includes investments in hedge funds that invest in a portfolio of other hedge funds.

Long/short equity: This category includes investments in hedge funds that invest domestically and globally in both long and short common stocks across all market capitalizations. These investments offer a low correlation to traditional long-only equity benchmarks in order to achieve absolute return. Management of the hedge funds may opportunistically shift investments across sectors, geographies, and net market exposures.

Event driven/open mandate: This category includes investments in hedge funds that invest in event-driven strategies including merger arbitrage, distressed debt, and convertible arbitrage to achieve returns.

Global macro: This category includes investments in hedge funds that invest in global macro strategies including long and short equities, currencies, commodities, etc. based on evaluation of macroeconomic trends.

Private equity: This category includes investments in several limited partnership funds that invest in equity securities and debt of private companies or conduct buyouts of public companies that result in a delisting of public equity. The nature of the investment in this category prohibits redemptions through the duration of the partnership, which ranges between 10 to 15 years. Distributions are received through the liquidation of underlying assets of the funds.

Venture capital: This category includes investments in several limited partnership funds that invest in early-stage, high-potential startup companies or small businesses that do not have access to public funding. The nature of the investment in this category prohibits redemptions through the duration of the partnership, which ranges between 10 to 15 years. Distributions are received when underlying companies are exited via acquisition or IPO.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2017, the Finance Corporation money market mutual fund investments were rated AAAM by Standard & Poor's.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investments in a single issuer. The Foundation maintains certain investment accounts with financial institutions which are not insured by the FDIC. These funds may be subject to insurance by Securities

Investor Protection Corporation, subject to various limitations. At June 30, 2017, approximately \$266,000,000 was held in these accounts. The Foundation believes that the number, diversity, and financial strength of the issuers mitigates the credit risks associated with all investments.

The Finance Corporation also maintains investment accounts with financial institutions that are not insured by the FDIC. These investments are made in accordance with the trust indenture. Money market fund shares are not guaranteed by the Federal government. Investments are reported at fair value of \$3,436,206 at June 30, 2017. The Finance Corporation believes that the number, diversity, and financial strength of the issuers mitigate the credit risks associated with all investments.

All of the Finance Corporation's investments at June 30, 2017, are held with Regions Morgan Keegan and are invested in money market funds. According to the bond indenture, the Finance Corporation can invest the bond proceeds in these investment vehicles; there are not stated limitations on the amount that can be invested in any one issuer. The short-term nature of the investments is due to liquidity needs, since those funds are being used for operating expenses and debt service payments.

Interest Rate Risk: Interest rate risk is the risk that changing interest rates will adversely affect the fair value of an investment. A portfolio's weighted average days to maturity (WAM) reflects the average maturity in days based on the final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the fund to interest rate changes. A portfolio's weighted average life (WAL) calculation is based on a security's stated final maturity date or, when relevant, the date of the next demand feature when the fund may receive payment of principal and interest. WAL reflects how a portfolio would react to deteriorating credit or tightening liquidity conditions. The Finance Corporation's money market mutual fund's WAM at June 30, 2017, is 26 days while the WAL is 95 days.

3. Receivables

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2017, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Student Tuition and Fees	\$ 15,354,933
Contracts and Grants	8,445,153
Other	429,774
Total Accounts Receivable	<u>\$ 24,229,860</u>

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

Allowance for Doubtful Receivables. Allowances for doubtful accounts, and loans and notes receivable, are reported based on management's best estimate as of fiscal-year end considering type, age, collection history, and other factors considered appropriate. Accounts receivable, and loans and

notes receivable, are reported net of allowances of \$13,451,786 and \$1,591,168, respectively, at June 30, 2017.

4. Due From State

The amount due from State consists of \$26,559,450 of Public Education Capital Outlay, and \$13,545,582 of Capital Improvement Fee Trust Fund for construction of University facilities.

5. Due From and To Component Units/University

The University's financial statements are reported for the fiscal year ended June 30, 2017. One component unit is not presented (see Note 1.). Additionally, component units' due to amounts include receivables and payables between the various component units. Accordingly, amounts reported by the University as due from and to component units on the statement of net position do not agree with amounts reported by the component units as due from and to the University.

6. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2017, is shown in the following table:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 30,417,578	\$ 271,848	\$ -	\$ 30,689,426
Works of Art and Historical Treasures	4,556,737	346,501	-	4,903,238
Construction in Progress	61,824,629	42,802,707	32,185,602	72,441,734
Total Nondepreciable Capital Assets	\$ 96,798,944	\$ 43,421,056	\$ 32,185,602	\$ 108,034,398
Depreciable Capital Assets:				
Buildings	\$ 1,116,421,131	\$ 31,986,163	\$ 440,743	\$ 1,147,966,551
Infrastructure and Other Improvements	34,444,431	1,030,072	-	35,474,503
Furniture and Equipment	132,988,524	12,188,733	4,461,843	140,715,414
Library Resources	113,028,556	4,275,061	170,609	117,133,008
Property Under Capital Leases and Leasehold Improvements	1,789,567	-	1,037,000	752,567
Computer Software	3,407,483	163,454	62,201	3,508,736
Total Depreciable Capital Assets	1,402,079,692	49,643,483	6,172,396	1,445,550,779
Less, Accumulated Depreciation:				
Buildings	328,598,921	28,720,141	218,686	357,100,376
Infrastructure and Other Improvements	15,077,655	1,489,777	-	16,567,432
Furniture and Equipment	93,943,291	10,202,441	4,249,787	99,895,945
Library Resources	81,969,555	8,038,365	170,609	89,837,311
Property Under Capital Leases and Leasehold Improvements	416,879	84,559	51,010	450,428
Computer Software	2,142,973	360,104	10,716	2,492,361
Total Accumulated Depreciation	522,149,274	48,895,387	4,700,808	566,343,853
Total Depreciable Capital Assets, Net	\$ 879,930,418	\$ 748,096	\$ 1,471,588	\$ 879,206,926

7. Unearned Revenue

Unearned revenue at June 30, 2017, includes contracts and grant payments received in advance, nonrefundable admission fees, prepaid stadium rental income received from the Finance Corporation, food service revenue, conference center fees, land use fees and athletic revenues received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2017, the University reported the following amounts as unearned revenue:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 2,960,456
Admission Fees	1,779,064
Stadium Rental Income	1,304,083
Food Service Revenue	596,663
Conference Center Fees	100,254
Land Use Fees	52,381
Athletic Revenues	251
Total Unearned Revenue	\$ 6,793,152

8. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2017, include capital improvement debt payable, installment purchase payable, compensated absences payable, other postemployment benefits payable, the long-term portion of unearned revenues, liability for self-insurance claims, net pension liability, and other long-term liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2017, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Capital Improvement Debt Payable	\$ 165,260,322	\$ -	\$ 7,184,422	\$ 158,075,900	\$ 7,494,422
Installment Purchase Payable	-	2,425,770	479,196	1,946,574	477,561
Capital Lease Payable	192,311	-	192,311	-	-
Compensated Absences Payable	41,761,561	6,840,612	3,668,817	44,933,356	3,782,939
Other Postemployment Benefits Payable	68,116,000	22,242,000	2,257,000	88,101,000	-
Unearned Revenue	35,566,894	1,900,000	1,422,791	36,044,103	-
Liability for Self-insured Claims	207,160	15,254	48,422	173,992	105,196
Net Pension Liability	121,495,035	141,381,218	60,795,120	202,081,133	1,621,255
Other Long-Term Liabilities	2,341,166	43,711	-	2,384,877	-
Total Long-Term Liabilities	\$ 434,940,449	\$ 174,848,565	\$ 76,048,079	\$ 533,740,935	\$ 13,481,373

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2017:

Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Student Housing Debt:				
2011A Student Apartments Refunding	\$ 22,210,000	\$ 15,271,352	3.00 - 5.00	2025
2012A Student Apartments	53,655,000	49,780,765	3.00 - 4.25	2041
2015A Student Apartments Refunding	29,105,000	26,018,761	3.00 - 5.00	2034
Total Student Housing Debt	104,970,000	91,070,878		
Parking Garage Debt:				
2009A&B Parking Garage	32,000,000	26,700,000	5.10 - 6.875	2039
2013A Parking Garage	48,365,000	40,305,022	3.00 - 5.25	2043
Total Parking Garage Debt	80,365,000	67,005,022		
Total Capital Improvement Debt	\$ 185,335,000	\$ 158,075,900		

Note: (1) Amount outstanding includes unamortized premiums and deferred losses on refunding issues.

The University has pledged a portion of future housing rental revenues, traffic and parking fees, and an assessed transportation fee per student to repay \$185,335,000 of capital improvement (housing and parking) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct parking garages and student housing facilities. The bonds are payable solely from housing rental income, parking fees, and assessed transportation fees per student and are payable through 2043. The University has committed to appropriate each year from the housing rental income, parking fees, and assessed transportation fees per student amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$243,763,601, and principal and interest paid for the current year totaled \$14,322,915. During the 2016-17 fiscal year, housing rental income totaled \$29,791,737 and parking fees totaled \$16,155,783, comprised of traffic and parking fees totaling \$5,453,405 and assessed transportation fees totaling \$10,702,378.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 7,195,000	\$ 7,117,585	\$ 14,312,585
2019	7,530,000	6,768,605	14,298,605
2020	7,280,000	6,412,865	13,692,865
2021	7,610,000	6,069,390	13,679,390
2022	7,885,000	5,793,268	13,678,268
2023-2027	33,505,000	24,547,051	58,052,051
2028-2032	30,555,000	17,567,662	48,122,662
2033-2037	29,230,000	10,421,438	39,651,438
2038-2042	22,755,000	3,373,487	26,128,487
2043	2,045,000	102,250	2,147,250
Subtotal	155,590,000	88,173,601	243,763,601
Net Premium and Losses on Bond Refundings	2,485,900	-	2,485,900
Total	<u>\$ 158,075,900</u>	<u>\$ 88,173,601</u>	<u>\$ 246,249,501</u>

Installment Purchase Payable. The University has entered into an installment purchase agreement for the purchase of equipment totaling \$2,425,770. The stated interest rate is 1.2515 percent. Future minimum payments remaining under installment purchase agreements and the present value of the minimum payments as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 499,686
2019	499,686
2020	499,686
2021	499,688
Total Minimum Payments	1,998,746
Less, Amount Representing Interest	52,172
Present Value of Minimum Payments	<u>\$ 1,946,574</u>

Capital Lease Payable – Related Party Transaction. Land and a building in the amount of \$1,037,000 were acquired under a capital lease agreement with the Foundation. This capital lease was fully paid during fiscal year 2016-17.

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2017, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$44,933,356. The current portion of the compensated absences liability,

\$3,782,939, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

Other Postemployment Benefits Payable. The University follows GASB Statement No. 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 (OPEB) Plan. The University subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the OPEB Plan information is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The State has not advance-funded OPEB costs or the net OPEB obligation. Premiums necessary for funding the OPEB 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, 399 retirees received postemployment healthcare benefits. The University provided required contributions of \$2,257,000 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$3,049,000, which represents 0.8 percent 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. The following table shows the University's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the University's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 13,179,000
Amortization of Unfunded Actuarial Accrued Liability	8,008,000
Interest on Normal Cost and Amortization	847,000
Annual Required Contribution	22,034,000
Interest on Net OPEB Obligation	2,725,000
Adjustment to Annual Required Contribution	(2,517,000)
Annual OPEB Cost (Expense)	22,242,000
Contribution Toward the OPEB Cost	(2,257,000)
Increase in Net OPEB Obligation	19,985,000
Net OPEB Obligation, Beginning of Year	68,116,000
Net OPEB Obligation, End of Year	<u>\$ 88,101,000</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2017, and for the 2 preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014-15	\$ 11,438,000	9.6%	\$ 47,684,000
2015-16	22,385,000	8.7%	68,116,000
2016-17	22,242,000	10.1%	88,101,000

Funded Status and Funding Progress. As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$205,746,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$205,746,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$388,298,438 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 55.8 percent.

Actuarial valuations for an OPEB 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. Actuarially determined amounts regarding the funded status of the OPEB 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 financial statements, presents multiyear trend information that shows whether the actuarial value of OPEB 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 OPEB 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 calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial valuations used actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The University's OPEB actuarial valuation as of July 1, 2015, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2017, and the University's 2016-17 fiscal year ARC. 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 percent rate of return on invested assets, which is the University's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year and an inflation rate of 3 percent. Initial healthcare cost trend rates were 7.5 percent, 8.8 percent, and 9.7 percent for the first 3 years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 5.7 percent, 7 percent, and 7.8 percent for the first 3 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 3.9 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2017, was 20 years.

Unearned Revenue. Long-term unearned revenue at June 30, 2017, includes Public Education Capital Outlay appropriations for which the University had not yet received approval from the Florida Department of Education to spend the funds. Also included are prepaid stadium rental income received from the Finance Corporation, land use fees, a National Institute of Health grant and other unearned revenues received prior to the fiscal year end related to subsequent accounting periods. As of June 30, 2017, the University reported the following amounts as long-term unearned revenue:

<u>Description</u>	<u>Amount</u>
Stadium Rental Income	\$ 19,452,574
State Capital Appropriations	10,000,000
National Institute of Health Grant	3,800,000
Land Use Fees	1,961,188
Other Unearned Revenue	<u>830,341</u>
Total Unearned Revenue	<u>\$ 36,044,103</u>

Net Pension Liability. As a participating employer in the Florida Retirement System, the University recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2017, the University's proportionate share of the net pension liabilities totaled \$202,081,133. Note 11. includes a complete discussion of defined benefit pension plans.

Other Long-Term Liabilities. Other long-term liabilities primarily represent the University's liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan program. This amount will ultimately be returned to the Federal Government should the University cease making Federal Perkins Loans or have excess cash in the loan program.

9. Discretely Presented Component Units Debt Issues

Notes Payable – Florida International University Foundation, Inc.

On January 20, 2000, the Miami-Dade County Educational Facilities Authority (the Authority) issued \$13 million tax-exempt revenue bonds (Florida International University Foundation Project – Series 1999). These bonds are payable from and secured by a pledge of payments to be made to the Authority under a loan agreement dated December 1, 1999, between the Foundation and the Authority.

The bonds are secured by an irrevocable letter of credit issued by a commercial bank as described below. The Foundation will finance the payments to the Authority under the loan agreement with lease payments received from the University under an operating lease (see note 15). The \$13 million original principal amount was issued under a variable rate structure with a final maturity date of May 1, 2022. The bond proceeds were used to acquire, construct, and equip a multi-function support complex located on the Modesto A. Maidique campus and to pay issuance costs. As of June 30, 2017, the outstanding principal balance due under this note payable was \$4.6 million. For the year ended June 30, 2017, total interest incurred and paid was \$117,775.

Under the letter of credit agreement and loan agreement noted above, the Foundation is obligated under certain debt covenants with which they are in compliance.

The bonds were repurchased by the Trustee under a commercial bank letter of credit due to the diminishing ability to remarket the variable rate demand bonds in the public marketplace. On July 30, 2010, the bank converted the variable rate demand bonds into a 5-year tax exempt qualified loan. After the initial 5-year period, the bank would have the right to require the Foundation to refinance the bank qualified loan or could agree to extend the maturity date for an additional 5-year period. The Foundation agrees to pay interest at a rate of 67 percent of the 1-month London Interbank Offered Rate (LIBOR) plus 1.68 percent. The bond maturity date of May 1, 2022, remains unchanged as does the swap agreement. On July 30, 2010, the Foundation paid \$52,213 in refinancing fees to complete this transaction. Since the terms remained substantially the same and the present value of the cash outflows is not substantially different, this is not considered an exchange of debt instruments.

The aggregate maturities of the notes payable, as of June 30, 2017, are shown in the following table:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 825,000
2019	865,000
2020	910,000
2021	960,000
2022	1,075,000
Total	\$ 4,635,000

Notes Payable – The Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. - Related Party Transaction.

On August 27, 2010, the Health Care Network entered into a loan agreement totaling \$5,321,198 with the University in order to provide working capital and build out capital to fund the expansion of the faculty

practice plan and the establishment of the ambulatory care center and other University clinical activities. In June of 2015 the Health Care Network renegotiated the loan agreement with the University and borrowed an additional \$3,015,652. The total loaned by the University to Health Care Network is \$8,633,962. Interest on the loan accrues at 2 percent simple interest and the loan is scheduled to mature on June 1, 2036.

Estimated principal and interest payments for the life of the amounts due to the University based on the balances as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2018	\$ 316,878	\$ 160,650	\$ 477,528
2019	327,991	154,312	482,303
2020	339,374	147,752	487,126
2021	351,033	140,965	491,998
2022	362,973	133,944	496,917
2023-2027	2,004,279	555,849	2,560,128
2028-2032	2,348,754	341,966	2,690,720
2033-2036	1,981,210	95,450	2,076,660
Total	\$ 8,032,492	\$ 1,730,888	\$ 9,763,380

Bonds Payable – FIU Athletics Finance Corporation.

On December 1, 2009, the Finance Corporation issued \$30,000,000 of Miami-Dade County Industrial Development Authority Revenue Bonds Series 2009A and \$5,310,000 of Miami-Dade County Industrial Development Authority Taxable Revenue Bonds Series 2009B.

These bonds were issued and secured under and pursuant to the Trust Indenture. Repayments of the bonds will be payable from pledged revenues, which are all operating and nonoperating revenues. Principal payments for the bonds began March 1, 2010. Interest payments are made on a quarterly basis.

On December 21, 2016, the Finance Corporation entered into four amendments to the trust indenture between Miami-Dade Authority and the Trustee which authorized the reissuance of the Series 2009A Bonds through the issuance of four separate series of bonds. The first amendment authorizes the reissuance of \$9,000,000 Series 2009A-1 Bond. The interest rate on the Series 2009A-1 Bonds shall be at a rate equal to 2.8 percent per annum. The second, third, and fourth amendments authorized the reissuance of separate series of the Series 2009A Bonds in a principal amount of \$8,400,000 (Series 2009A-2), \$8,400,000 (Series 2009A-3), and \$4,200,000 (Series 2009A-4), respectively. The interest rates on these Series 2009A bonds shall be at a rate equal to the sum of 63.7 percent of the 3-month LIBOR plus 1.40 percent.

The bonds are secured by operating and nonoperating revenues as well as University athletic fees, not to exceed 5 percent of the total athletic fees collected. Total principal due at June 30, 2017, was \$29,740,000.

The Finance Corporation has funded a debt service reserve fund in accordance with the bond indenture requirement of maintaining an amount equal to the maximum allowable debt service on the bond in the

current and any future fiscal year. This debt service reserve fund currently totals \$2,693,462 and is included in restricted investments.

Prior to the December 2016 reissuance, the Finance Corporation was required to maintain minimum deposits of \$1,000,000 with a bank. As part of the amendment on December 21, 2016, Finance Corporation agreed to use approximately \$1,000,000 currently on deposit with the Trustee to pay in full the outstanding balance of the Series 2009B Bonds.

The interest rate on these bonds is both fixed and variable and is subject to a swap agreement (see Note 10.) that was entered into to reduce the exposure to market risks from changing interest rates. Interest is computed on the basis of the actual number of days elapsed over a year of 365 or 366 days.

The aggregate maturities of these bonds as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2018	\$ 1,150,000	\$ 1,306,903	\$ 2,456,903
2019	1,325,000	1,253,958	2,578,958
2020	1,445,000	1,198,426	2,643,426
2021	1,505,000	1,131,936	2,636,936
2022	1,580,000	1,066,013	2,646,013
2023-2027	9,085,000	4,229,964	13,314,964
2028-2033	13,650,000	2,056,528	15,706,528
Total	\$ 29,740,000	\$ 12,243,728	\$ 41,983,728

10. Derivative Financial Instruments – Discretely Presented Component Units

The Finance Corporation entered into derivative instruments (i.e., interest rate swap agreements) to reduce their exposure to market risks from changing interest rates. For interest rate swap agreements, the differential to be paid or received is accrued and recognized as interest expense and may change as market interest rates change. The interest rate swap agreement entered into by the Finance Corporation is discussed below.

FIU Athletics Finance Corporation.

Objectives. As a means to lower its borrowing costs and increase its savings, the Finance Corporation entered into an interest rate swap agreement in connection with its \$30,000,000 2009A Miami-Dade County Industrial Development Authority Revenue Bond issuance. The intention of the interest rate swap agreement was to effectively change the Finance Corporation's variable interest rate on the bonds to a synthetic fixed rate of 5.50 percent, which is the fixed rate payable by the Finance Corporation under the interest rate swap agreement of 3.60 percent plus 1.90 percent.

Terms. On December 22, 2009, the Finance Corporation entered into an interest rate swap agreement to hedge the floating rate on \$21,000,000 of the principal amount of the 2009A bonds. This represents the fixed portion of the tax-exempt bonds payable mentioned above. Under the interest rate swap agreement, the Finance Corporation agrees to pay a fixed rate of 3.60 percent and receive a variable rate equal to 63.7 percent of the 3-month LIBOR. The interest rate swap agreement has a maturity date of March 1, 2033.

Fair Value. As of June 30, 2017, the Finance Corporation interest rate swap agreement has a derivative liability of \$3,791,845 as included with reported other long-term liabilities in the statement of net position. The negative fair value was determined using Mark-to-Market Value and represents the closing mid-market values. It was classified in Level 2 of the fair value hierarchy at June 30, 2017.

As of June 30, 2017, the fair value of the Series 2007A ineffective interest rate swap agreement was \$1,525,309, which is included with reported other long-term liabilities. This interest rate swap agreement was not terminated when the bonds were refunded in December 2009 nor in December 2016. The interest rate on the refunding Series 2009A bonds reflects a higher rate due to not terminating this interest rate swap agreement. Accordingly, the fair value of \$1,525,309 of the ineffective Series 2007A interest rate swap agreement is being amortized over the remaining life of the refunding Series 2009A bonds.

The synthetic instrument method evaluates the effectiveness of a potential hedging derivative instrument by quantitative approach. The synthetic instrument method evaluates effectiveness by combining the hedgeable item and the potential hedging derivative instrument to simulate a third synthetic instrument. A potential hedging derivative instrument is effective if its total variable cash flows substantially offset the variable cash flows of the hedgeable item. The Finance Corporation determined that it met the criteria of the synthetic instrument method. Therefore, the change in the fair value of the effective interest rate swap agreement is presented in the component units column of the statement of net position as a deferred outflows of resources in the amount of \$2,266,536.

Credit Risk. As of June 30, 2017, the Finance Corporation was not exposed to credit risk because the interest rate swap agreement had a negative fair value. However, should interest rates change and the fair value of the interest rate swap agreement become positive, the Finance Corporation would be exposed to credit risk in the amount of the derivative's fair value. The interest rate swap agreement counterparty was rated A2 by Moody's Investors Service, BBB+ by Standard & Poor's and BBB by Fitch ratings at June 30, 2017.

Basis Risk. Basis risk arises when different indexes are used in connection with a derivative. Given that both the bond and the interest rate swap agreement are based on 63.7 percent of the 3-month LIBOR rate, there is limited basis risk.

Termination Risk. The derivative contract uses the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The schedule to the Master Agreement includes an "additional termination event". That is, the interest rate swap agreement may be terminated if: (i) the loan or other indebtedness in connection with which a transaction entered into by the Finance Corporation for the purpose or with the effect of altering the net combined payment from a floating to fixed or a fixed to floating rate basis is repaid, whether upon acceleration of principal, at maturity, or otherwise, or for any other reason ceases to be an obligation of the Finance Corporation, with or without the consent of the counterparty; or (ii) any credit support document expires, terminates, or ceases to be of full force and effect. Also, the interest rate swap agreement may be terminated or assigned by the Finance Corporation if the counterparty's long-term, senior, unsecured, unenhanced debt rating is withdrawn, suspended, or falls below at least two of the following: a) "Baa3" as determined by Moody's; or b) "BBB+" as determined by Standard & Poor's; or c) "BBB" as determined by Fitch Ratings.

Swap Payments and Associated Debt. Using rates as of June 30, 2017, debt service requirements of the variable-rate portion of the debt and net swap payments, assuming current interest rates remain the same for their term, are as follows:

Fiscal Year Ending June 30	Variable-Rate Bond		Interest Rate	Total
	Principal	Interest	Swap, Net	
2018	\$ 910,000	\$ 565,624	\$ 485,778	\$ 1,961,402
2019	950,000	540,807	464,464	1,955,271
2020	995,000	514,898	444,835	1,954,733
2021	1,040,000	487,762	418,908	1,946,670
2022	1,090,000	459,399	394,549	1,943,948
2023-2027	6,220,000	1,824,234	1,568,748	9,612,982
2028-2032	7,760,000	895,617	770,994	9,426,611
2033	1,775,000	48,408	(48,408)	1,775,000
Total	\$ 20,740,000	\$ 5,336,749	\$ 4,499,868	\$ 30,576,617

Note: As rates vary, variable-rate bond interest payments and net swap payments will vary.

11. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS).

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 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 employed by the State and 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 FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services Web site (www.dms.myflorida.com).

The University's FRS and HIS pension expense totaled \$32,937,022 for the fiscal year ended June 30, 2017.

FRS Pension Plan.

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

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

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

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

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

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
<u>Regular Class members initially enrolled before July 1, 2011</u>	
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
<u>Regular Class members initially enrolled on or after July 1, 2011</u>	
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
<u>Senior Management Service Class</u>	2.00
<u>Special Risk Class</u>	
Service on and after October 1, 1974	3.00

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

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2016-17 fiscal year were:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.52
FRS, Senior Management Service	3.00	21.77
FRS, Special Risk	3.00	22.57
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	12.99
FRS, Reemployed Retiree	(2)	(2)

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

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

The University's contributions to the Plan totaled \$15,160,433 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the University reported a liability of \$145,845,435 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 0.57760389 percent, which was an increase of 0.010075333 from its proportionate share measured as of June 30, 2015.

For the year ended June 30, 2017, the University recognized pension expense of \$27,463,157. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 11,167,048	\$ 1,357,920
Change of assumptions	8,823,212	-
Net difference between projected and actual earnings on FRS Plan investments	37,699,267	-
Changes in proportion and differences between University contributions and proportionate share of contributions	18,741,421	-
University FRS contributions subsequent to the measurement date	15,160,433	-
Total	\$ 91,591,381	\$ 1,357,920

The deferred outflows of resources totaling \$15,160,433, 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 follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 12,984,219
2019	12,984,219
2020	27,681,734
2021	17,815,697
2022	2,792,534
Thereafter	814,625
Total	\$ 75,073,028

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:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.60 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 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 pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	<u>100%</u>			
Assumed inflation - Mean			2.6%	1.9%

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

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

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60 percent) or 1 percentage point higher (8.60 percent) than the current rate:

	<u>1% Decrease (6.60%)</u>	<u>Current Discount Rate (7.60%)</u>	<u>1% Increase (8.60%)</u>
University's proportionate share of the net pension liability	\$268,511,321	\$145,845,435	\$43,742,286

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

HIS Pension Plan.

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

Benefits Provided. For the fiscal year ended June 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2017, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The University contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The University's contributions to the HIS Plan totaled \$2,587,349 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the University reported a liability of \$56,235,698 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 0.482519923 percent, which was an increase of 0.009985183 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the University recognized pension expense of \$5,473,865. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 128,084
Change of assumptions	8,824,811	
Net difference between projected and actual earnings on HIS Plan investments	28,434	-
Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions	3,917,706	-
University HIS contributions subsequent to the measurement date	<u>2,587,349</u>	<u>-</u>
Total	<u>\$ 15,358,300</u>	<u>\$ 128,084</u>

The deferred outflows of resources totaling \$2,587,349 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 follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 2,363,789
2019	2,363,789
2020	2,358,375
2021	2,355,776
2022	1,842,287
Thereafter	<u>1,358,851</u>
Total	<u>\$ 12,642,867</u>

Actuarial Assumptions. The total pension liability at July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal bond rate	2.85 percent

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

adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 3.80 percent from the prior measurement date.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 2.85 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	<u>1% Decrease (1.85%)</u>	<u>Current Discount Rate (2.85%)</u>	<u>1% Increase (3.85%)</u>
University's proportionate share of the net pension liability	\$64,515,122	\$56,235,698	\$49,364,228

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

12. Retirement Plans – Defined Contribution Pension Plans

FRS Investment Plan. The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State 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 the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2016-17 fiscal year were as follows:

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

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the University.

After termination and applying to receive benefits, the member may 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 any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The University's Investment Plan pension expense totaled \$2,722,772 for the fiscal year ended June 30, 2017.

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 8 or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes 5.14 percent of the participant's salary to the participant's account, 2.83 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover administrative costs, for a total of 7.98 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The University's contributions to the Program totaled \$18,528,483, and employee contributions totaled \$11,954,431 for the 2016-17 fiscal year.

13. Construction Commitments

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

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Recreation Center Expansion	\$ 26,123,174	\$ 15,601,975	\$ 10,521,199
University City Prosperity Project	11,187,709	2,807,191	8,380,518
Satellite Chiller Plant	9,427,734	1,480,001	7,947,733
Auxiliary Construction Projects I	20,977,717	13,816,731	7,160,986
Auxiliary Construction Projects II	6,843,847	859,568	5,984,279
Athletics Practice Fields	8,889,570	4,017,447	4,872,123
Subtotal	83,449,751	38,582,913	44,866,838
Projects with Balance Committed Under \$3 Million	49,730,185	33,858,821	15,871,364
Total	\$ 133,179,936	\$ 72,441,734	\$ 60,738,202

14. Operating Lease Commitments

The University leased building space under operating leases, which expire in 2034. These leased assets and the related commitments are not reported on the University's statement of net position. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Included in the annual payments below are the minimum payments required for the operating lease due to the Foundation as described in Note 15. Future minimum lease commitments for these noncancelable operating leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 5,352,830
2019	5,463,877
2020	5,575,738
2021	5,628,400
2022	4,625,250
2023-2027	8,846,083
2028-2032	5,719,555
2033-2034	2,554,484
Total Minimum Payments Required	\$ 43,766,217

15. Operating Lease Commitments – Related Party Transactions

Florida International University Foundation, Inc.

On December 1, 1999, the former Board of Regents of the State University System of the State of Florida for and on behalf of the University entered into a ground lease agreement with the Foundation. Under this agreement, the Foundation leases from the University the grounds on which a multi-function support complex facility was built on the Modesto A. Maidique campus. The consideration required to be paid by the Foundation is \$10 annually. The ground lease will expire on December 31, 2024, or on the date the Foundation makes its final payment under a letter of credit agreement related to the financing of the facility. Total amounts paid to the Foundation under this agreement were \$1,689,602 for the year ended June 30, 2017.

On December 1, 1999, the former Board of Regents on behalf of the University also entered into a 20-year operating lease agreement with the Foundation for the facility. Under the terms of the operating lease, the University will pay the Foundation rent in the amount equal to all amounts due and payable by the Foundation under the letter of credit agreement, if any, and loan agreement related to the financing of the facility. The payments also include any costs of operating and maintaining the facility, in addition to amounts necessary to pay any unanticipated and extraordinary costs. The lease commenced during August 2002 when the facility became operational. The lease will terminate on May 1, 2022, which is the date of maturity of the loan agreement.

The facility under the above operating lease is not recorded as an asset on the statement of net position; however, the operational lease payments are recorded as expenses in the statement of revenues, expenses, and changes in net assets when paid or incurred.

The following schedule by years presents management's best estimate of future minimum rental payments for this noncancelable operating lease as of June 30, 2017:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 1,418,000
2019	1,418,000
2020	1,418,000
2021	1,418,000
2022	1,418,000
Total Minimum Payments Required	\$ 7,090,000

FIU Athletics Finance Corporation.

The University and the Finance Corporation entered into two 25-year ground sublease agreements dated April 1, 2007, rendering the rights to the Finance Corporation to issue a series of capital improvement bonds of which a portion of the proceeds, along with contributions from the University, was used to finance a stadium improvement project located on University premises. Under this agreement, the Finance Corporation prepaid to the University, for rental of the premises, the sum of \$31,937,211.

The following schedule by years represents management's best estimate of future minimum rental expense that will be recognized for these sublease agreements:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 1,304,083
2019	1,304,083
2020	1,304,083
2021	1,304,083
2022	1,304,083
2023-2027	6,520,416
2028-2032	6,520,416
2033	1,195,410
Total Minimum Payments Required	\$ 20,756,657

16. Gift Agreement – Florida International University Foundation, Inc.

The Wolfsonian, Inc. (Wolfsonian), was established in 1986 to create and operate a museum and research center in Miami Beach, Florida, and to support a comprehensive program focused on the collection, exhibition, interpretation, preservation, research and publication of the decorative, or design and architectural arts. The Wolfsonian has been loaned the Mitchell Wolfson, Jr., collection of nearly 27,000 objects of art and rare books dating from the late nineteenth to the mid-twentieth century. It encompasses furniture, sculpture, paintings, books, graphics and other works of art on paper, as well as archives relating to the period. Through a series of academic study and fellowship programs, national and international traveling exhibitions, and scholarly initiatives, the Wolfsonian promotes public education and awareness of the social, historical, technological, political, economic, and artistic material culture of Europe and America in the 1885-1945 period.

On July 1, 1997, the Foundation entered into a gift agreement (Agreement) with Mitchell Wolfson, Jr., the Wolfsonian, and the University, whereby Mitchell Wolfson, Jr., agreed to donate all rights, title, and interest in and to all objects constituting the Mitchell Wolfson, Jr., Collection of Decorative and Propaganda Arts to the Foundation, subject to a loan agreement made and entered into by the Wolfsonian and Mr. Wolfson, Jr., dated July 29, 1991. The loan agreement was extended through to July 2021, at which time it can be renewed for an additional period of 10 years.

The Foundation has elected to exercise the option of not capitalizing the items that meet the definition of “collection” as prescribed by accounting principles generally accepted in the United States. Therefore, the fair value of the donated Collection of Decorative and Propaganda Arts is not reflected in the University’s financial statements. Purchases of collection items are recorded as decreases in unrestricted net position in the year in which the items are acquired, or as temporarily or permanently restricted net position if the assets used to purchase the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net position classes.

As a result of the Agreement, the Wolfsonian amended its articles of incorporation and bylaws to provide that all its directors be appointed and removed at any time with or without cause by the Foundation, to effect a transfer of complete control of all of the assets, interest, and obligations of the Wolfsonian to the Foundation. On May 26, 1999, the Foundation passed a revision to the bylaws of the Wolfsonian to make the Foundation the sole voting member of the Wolfsonian.

The gifts are conditional upon the provisions outlined in the Agreement including, but not limited to, the Foundation continuing the museum and educational activities and operations that were conducted by the Wolfsonian. As a result of the Agreement, the University and Foundation have assumed all administrative functions and operating costs of the Wolfsonian.

The most significant of the obligations under the Agreement is for the University to provide the Wolfsonian with the same financial support from its general budget, as provided to other departments, and to continue the museum and educational activities and operations of the Wolfsonian. The University provided support of approximately \$3 million during the 2016-17 fiscal year for Wolfsonian expenses which included salaries, equipment, administrative expenses, insurance premiums for the art collection, and building security. In addition, the University provided support of approximately \$1 million during the 2016-17 fiscal year for utilities, repairs, and maintenance expenses for buildings used by the Wolfsonian.

17. Risk Management Programs

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 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 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 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; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past 3 fiscal years.

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

University Self-Insurance Program. The Florida International University College of Medicine Self-Insurance Program was established pursuant to Section 1004.24, Florida Statutes, on June 18, 2009. The Self-Insurance Program provides professional and general liability protection for the Florida International University Board of Trustees for claims and actions arising from the clinical activities of the College of Medicine faculty, staff, and resident physicians. Liability protection is afforded to the students of the College. The Self-Insurance Program provides legislative claims bill protection.

The University is protected for losses that are subject to Section 768.28, Florida Statutes, to the extent of the waiver of sovereign immunity as described in Section 768.28(5), Florida Statutes. The Self-Insurance Program also provides \$1,000,000 per legislative claims bills inclusive of payments made pursuant to Section 768.28, Florida Statutes; \$250,000 per occurrence of protection for the participants that are not subject to the provisions of Section 768.28, Florida Statutes; \$250,000 per claim protection for participants who engage in approved community service or act as Good Samaritans; and student

professional liability coverage not to exceed a per occurrence limit of \$1,000,000 if such limits are required by an affiliated hospital or healthcare affiliate.

The Self-Insurance Program's estimated liability for unpaid claims at fiscal year end is the result of management and actuarial analysis and includes an amount for claims that have been incurred but not reported.

Changes in the balances of claims liability for the Self-Insurance Program during the 2015-16 and 2016-17 fiscal years are presented in the following table:

<u>Fiscal Year Ended</u>	<u>Claims Liabilities Beginning of Year</u>	<u>Current Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Claims Liabilities End of Year</u>
June 30, 2016	\$ 90,530	\$ 134,521	\$ (17,891)	\$ 207,160
June 30, 2017	207,160	(18,997)	(14,171)	173,992

18. Functional Distribution of Operating Expenses

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 318,682,227
Research	110,050,937
Public Services	13,185,330
Academic Support	106,447,572
Student Services	68,022,947
Institutional Support	92,794,747
Operation and Maintenance of Plant	60,156,507
Scholarships, Fellowships, and Waivers	88,603,383
Depreciation	48,895,387
Auxiliary Enterprises	59,232,983
Total Operating Expenses	\$ 966,072,020

19. 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. The following financial information for the University's Housing, and Parking facilities represents identifiable activities for which one or more bonds are outstanding:

Condensed Statement of Net Position

	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt
Assets		
Current Assets	\$ 26,649,805	\$ 9,405,653
Capital Assets, Net	123,201,716	102,000,952
Other Noncurrent Assets	10,372	2,873,206
Total Assets	149,861,893	114,279,811
Liabilities		
Current Liabilities	5,603,012	4,403,649
Noncurrent Liabilities	87,188,307	63,709,707
Total Liabilities	92,791,319	68,113,356
Net Position		
Net Investment in Capital Assets	32,026,085	35,417,401
Restricted - Expendable	10,371	2,873,205
Unrestricted	25,034,118	7,875,849
Total Net Position	\$ 57,070,574	\$ 46,166,455

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

	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt
Operating Revenues	\$ 29,791,737	\$ 16,155,783
Depreciation Expense	(3,805,238)	(2,946,214)
Other Operating Expenses	(17,692,186)	(8,505,539)
Operating Income	8,294,313	4,704,030
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	178,309	71,573
Interest Expense	(3,522,315)	(3,616,180)
Nonoperating Expense	-	(167,907)
Net Nonoperating Expenses	(3,344,006)	(3,712,514)
Income Before Transfers	4,950,307	991,516
Net Transfers	(1,047,249)	(137,991)
Capital Grants	-	652,129
Increase in Net Position	3,903,058	1,505,654
Net Position, Beginning of Year	53,167,516	44,660,801
Net Position, End of Year	\$ 57,070,574	\$ 46,166,455

Condensed Statement of Cash Flows

	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt
Net Cash Provided (Used) by:		
Operating Activities	\$ 13,245,682	\$ 8,123,451
Noncapital Financing Activities	36,373	9,864
Capital and Related Financing Activities	(10,703,616)	(8,076,914)
Investing Activities	(2,234,414)	(87,704)
Net Increase (Decrease) in Cash and Cash Equivalents	344,025	(31,303)
Cash and Cash Equivalents, Beginning of Year	1,472,621	1,378,928
Cash and Cash Equivalents, End of Year	\$ 1,816,646	\$ 1,347,625

20. Discretely Presented Component Units

The University has 3 discretely presented component units. As discussed in Note 1., the financial activities of the Research Foundation are not included in the component units' columns of the financial statements. The 3 component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is from the most recently available audited financial statements for the component units:

Condensed Statement of Net Position

	Direct-Support Organizations			
	Florida International University Foundation, Inc.	FIU Athletics Finance Corporation	Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc.	Total
Assets:				
Current Assets	\$ 343,006,382	\$ 2,873,015	\$ 5,030,405	\$ 350,909,802
Capital Assets, Net	15,696,458	91,250	283,279	16,070,987
Other Noncurrent Assets	-	22,146,036	-	22,146,036
Total Assets	358,702,840	25,110,301	5,313,684	389,126,825
Deferred Outflows of Resources	-	2,503,057	-	2,503,057
Liabilities:				
Current Liabilities	3,591,534	1,802,376	2,564,504	7,958,414
Noncurrent Liabilities	8,034,295	33,234,086	7,715,614	48,983,995
Total Liabilities	11,625,829	35,036,462	10,280,118	56,942,409
Net Position:				
Net Investment in Capital Assets	10,473,074	-	283,279	10,756,353
Restricted Nonexpendable	212,906,553	-	-	212,906,553
Restricted Expendable	101,704,424	-	-	101,704,424
Unrestricted	21,992,960	(7,423,104)	(5,249,713)	9,320,143
Total Net Position	\$ 347,077,011	\$ (7,423,104)	\$ (4,966,434)	\$ 334,687,473

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

	Direct-Support Organizations			Total
	Florida International University Foundation, Inc.	FIU Athletics Finance Corporation	Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc.	
Operating Revenues	\$ 33,435,859	\$ 4,030,559	\$ 8,195,291	\$ 45,661,709
Depreciation Expense	(691,395)	(18,250)	(70,122)	(779,767)
Operating Expenses	(40,305,167)	(2,402,845)	(4,796,392)	(47,504,404)
Operating Income (Loss)	<u>(7,560,703)</u>	<u>1,609,464</u>	<u>3,328,777</u>	<u>(2,622,462)</u>
Net Nonoperating Revenues (Expenses):				
Investment Income	29,548,928	8,506	-	29,557,434
Interest Expense	-	(1,292,498)	(166,770)	(1,459,268)
Gain on Disposal of Capital Assets	559,688	-	-	559,688
Other Nonoperating Expenses	-	(164,950)	-	(164,950)
Net Nonoperating Revenues (Expenses)	<u>30,108,616</u>	<u>(1,448,942)</u>	<u>(166,770)</u>	<u>28,492,904</u>
Other Revenues, Expenses, Gains, and Losses	-	(1,838,955)	(2,442,982)	(4,281,937)
Increase (Decrease) in Net Position	<u>22,547,913</u>	<u>(1,678,433)</u>	<u>719,025</u>	<u>21,588,505</u>
Net Position, Beginning of Year	<u>324,529,098</u>	<u>(5,744,671)</u>	<u>(5,685,459)</u>	<u>313,098,968</u>
Net Position, End of Year	<u>\$ 347,077,011</u>	<u>\$ (7,423,104)</u>	<u>\$ (4,966,434)</u>	<u>\$ 334,687,473</u>

21. Subsequent Events

On December 29, 2017 the National Forensic Science Technology Center (NFSTC) merged with the University by transferring assets and liabilities to the University. Consideration will not be paid by the University to NFSTC and NFSTC has been absorbed into University operations. In conjunction with the merger, the University has assumed an operating lease commitment for a building lease. Operating lease payments are recorded as expenses when paid or incurred. The noncancelable operating lease term runs from January 2018 through April 2024 with future minimum payments totaling \$8,101,620. In addition, the University has assumed a liability of \$955,727 on behalf of NFSTC.

On March 15, 2018, while under construction, the pedestrian bridge connecting the Modesto A. Maidique campus with the City of Sweetwater, referred to as the University City Prosperity Project in Note 13., Construction Commitments, suffered a total collapse, which killed and injured several people and brought construction to a halt. University management is unable to make a determination of the outcome of any potential claims or litigation, if any, or the estimated costs that the University may incur as a result of this event. The Design-Build team (Contractor and Design Engineer) as well as the Construction Engineering Inspection Services firm for the project had obtained insurance policies as required by their respective agreements, which should cover some of the losses caused by this event, if any.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	\$ -	\$ 101,015,000	\$ 101,015,000	0%	\$ 280,051,835	36.1%
7/1/2013	-	120,121,000	120,121,000	0%	332,597,433	36.1%
7/1/2015	-	205,746,000	205,746,000	0%	370,763,485	55.5%

Note: (1) The entry-age cost actuarial method was used to calculate the actuarial accrued liability.

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

	2016 (1)	2015 (1)	2014 (1)	2013 (1)
University's proportion of the FRS net pension liability	0.577603890%	0.567528557%	0.525779099%	0.380516592%
University's proportionate share of the FRS net pension liability	\$ 145,845,435	\$ 73,303,925	\$ 32,080,257	\$ 65,503,841
University's covered payroll (2)	\$ 370,763,486	\$ 355,458,891	\$ 332,597,433	\$ 305,657,917
University's proportionate share of the FRS net pension liability as a percentage of its covered payroll	39.34%	20.62%	9.65%	21.43%
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) Covered payroll includes defined benefit plan actives, investment plan members, State university system optional retirement program members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

Schedule of University Contributions – Florida Retirement System Pension Plan

	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 15,160,433	\$ 14,085,792	\$ 13,836,828	\$ 11,516,793
FRS contributions in relation to the contractually required contribution	(15,160,433)	(14,085,792)	(13,836,828)	(11,516,793)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
University's covered payroll (2)	\$ 388,298,438	\$ 370,763,486	\$ 355,458,891	\$ 332,597,433
FRS contributions as a percentage of covered payroll	3.90%	3.80%	3.89%	3.46%

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

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

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

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
University's proportion of the HIS net pension liability	0.482519923%	0.472534740%	0.449262551%	0.417849098%
University's proportionate share of the HIS net pension liability	\$ 56,235,698	\$ 48,191,110	\$ 42,007,145	\$ 36,379,258
University's covered payroll (2)	\$ 147,667,524	\$ 140,089,301	\$ 130,882,051	\$ 118,388,264
University's proportionate share of the HIS net pension liability as a percentage of its covered payroll	38.08%	34.40%	32.10%	30.73%
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) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

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

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 2,587,349	\$ 2,473,222	\$ 1,806,322	\$ 1,539,022
HIS contributions in relation to the contractually required HIS contribution	<u>(2,587,349)</u>	<u>(2,473,222)</u>	<u>(1,806,322)</u>	<u>(1,539,022)</u>
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll (2)	\$ 168,353,927	\$ 147,667,524	\$ 140,089,301	\$ 130,882,051
HIS contributions as a percentage of covered payroll	1.54%	1.67%	1.29%	1.18%

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

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

1. Schedule of Funding Progress – Other Postemployment Benefit Plan

The July 1, 2015, unfunded actuarial accrued liability of \$205,746,000 was significantly higher than the July 1, 2013, liability of \$120,121,000 as a result of the following: (1) the per capita claims cost assumption increased, (2) retiree contributions were not as high as expected, (3) the healthcare trend rate assumption was revised, and (4) certain demographic assumptions were revised (retirement rates, termination rates, etc.).

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

Changes of Assumptions. The long-term expected rate of return was decreased from 7.65 percent to 7.60 percent, and the active member mortality assumption was updated.

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

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 3.80 percent to 2.85 percent.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Florida International University, 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 March 26, 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
March 26, 2018