

FLORIDA SOUTHWESTERN STATE COLLEGE FINANCING CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2024

NOTE 3 INVESTMENTS

The Financing Corporation's policy objectives suggest an investment strategy of an intermediate taxable fixed income portfolio. The intermediate taxable fixed income portfolio will maintain an average duration of 5 years. A maximum, final maturity for any single issue will not exceed 10 years.

Investment will be limited to U.S. treasuries, government agency debt (including agency mortgage-backed securities), taxable municipal bonds, and corporate bonds with the following portfolio limitation: minimum allocation to portfolio to Wasmer's short and intermediate duration bond is 75% and maximum allocation of portfolio to Wasmer's Intermediate IG credit strategy is 25% with BBB category exposure limited to 30%.

The strategy states that all investments will be investment grade defined as Baa3/BBB-/BBB (Moody's, Standard & Poor's, Fitch) or higher at time of purchase with the further provision that no purchases will be made if a bond is rated below investment grade by any of the three rating agencies. If a bond falls below investment grade by any of the three rating services after purchase, FineMark National Bank and Trust and its sub-advisors must present a recommendation to the Treasurer to either hold or sell this security based upon their independent research while maintaining an overall overage credit quality for the portfolio of A or better.

All assets will be invested in liquid securities, defined as securities that can be sold quickly and efficiently for cash, and will settle within three business days.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Financing Corporation will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

The Financing Corporation utilizes the services of an investment manager, FineMark National Bank and Trust, for its investments. The investments held by the investment manager are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Financing Corporation's name.

The Money Market Mutual Fund account, in the amount of \$91,360, is not insured through either the FDIC or Chapter 280. Investments in these money market mutual funds are not categorized as to custodial credit risk as they are not evidenced by securities that exist in physical or book entry form.

At March 31, 2024, the Financing Corporation had \$2,061,438 in unrestricted nonnegotiable certificate of deposit with a qualified public depository. As such, the Financing Corporation is not exposed to custodial credit risk for its certificate of deposit.

FLORIDA SOUTHWESTERN STATE COLLEGE FINANCING CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2024

NOTE 3 INVESTMENTS (CONTINUED)

Interest Rate Risk

As a means of managing its exposure to fair-value losses arising from increasing interest rates, the Financing Corporation has established a target for the duration of its fixed income portfolio to be 5 and 10 years.

As of March 31, 2024, the fair value of the Financing Corporation's investment portfolio was \$9,732,775. The portion attributed to fixed income investments totaled \$7,671,337 and was available by percentage of its portfolio as follows:

<u>Investment Maturities</u>	<u>Percentage of Portfolio</u>
Less than 1 Year	14.0%
1 to 5 Years	63.5%
6 to 10 Years	22.5%
Total	<u>100.0%</u>

All funds classified as investments are recorded at fair value, as listed on March 31, 2024. As of March 31, 2024, the maturities of investments by type were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>Less than 1 Year</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>
Federal Agencies	\$ 1,499,660	\$ 415,164	\$ 880,811	\$ 203,685
State and Municipal Bonds	3,024,075	403,369	1,823,926	796,780
Corporate Bonds	3,147,602	257,482	2,165,306	724,814
Totals	<u>\$ 7,671,337</u>	<u>\$ 1,076,015</u>	<u>\$ 4,870,043</u>	<u>\$ 1,725,279</u>

Credit Risk

It is the Financing Corporation's policy that the fixed income portfolio must be rated at A or higher for corporate bond investments and AA or higher for all other investments by any of the three rating services. At March 31, 2024, the Financing Corporation's fixed income investments were rated as follows:

<u>Ratings</u>	<u>Percentage of Portfolio</u>
AAA	4.1%
AA	49.5%
A	39.2%
BBB	7.2%
Total	<u>100.0%</u>

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
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NOTE 3 INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The Financing Corporation's policy limits investments to U.S. treasuries, government agencies, taxable municipal bonds, and corporate bonds. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations. The following represents investments with issuers that exceed 5% of the Financing Corporation's total investments:

Issuer	Issuers' Total Fair Value	Percentage of Total Investments
FANNIE MAE (FNMA)	\$ 1,081,858	14.1%

Management of the Financing Corporation believes the concentration of credit risk with respect to its investments is mitigated by investing through the use of a national investment manager in U.S. treasuries, government agencies, highly rated corporate bonds, municipal bonds, and widely traded mutual funds.

Fair Value Measurements

The Financing Corporation categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Financing Corporation has the following recurring fair value measurements as of March 31, 2024:

- Federal agencies of \$1,499,660 and state and municipal bonds of \$3,024,075 are valued using pricing models maximizing the use of observable inputs for similar securities (Level 2 inputs).
- Corporate bonds of \$3,147,602 is valued using a matrix pricing model (Level 2 inputs).

The certificate of deposit of \$2,061,438 is valued at amortized cost.

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MARCH 31, 2024

NOTE 4 CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended March 31, 2024:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Depreciable Capital Assets:				
Building	\$ 21,657,234	\$ -	\$ -	\$ 21,657,234
Other Structures	4,888,101	181,852	-	5,069,953
Furniture	78,885	-	-	78,885
Total Depreciable Capital Assets	<u>26,624,220</u>	<u>181,852</u>	<u>-</u>	<u>26,806,072</u>
Total Capital Assets	26,624,220	181,852	-	26,806,072
Less Accumulated Depreciation for:				
Building	(5,775,263)	(541,431)	-	(6,316,694)
Other Structures	(598,940)	(483,858)	-	(1,082,798)
Furniture	(78,885)	-	-	(78,885)
Total Accumulated Depreciation	<u>(6,453,088)</u>	<u>(1,025,289)</u>	<u>-</u>	<u>(7,478,377)</u>
Total Capital Assets, Net	<u>\$ 20,171,132</u>	<u>\$ (843,437)</u>	<u>\$ -</u>	<u>\$ 19,327,695</u>

NOTE 5 BONDS PAYABLE

The following is a summary of the bonds payable activity for the period ended March 31, 2024:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year	Amounts Due within One Year
Direct Placements:					
Series 2017A	\$ 8,141,593	\$ -	\$ (362,560)	\$ 7,779,033	\$ 373,483
Series 2017B	8,141,593	-	(362,560)	7,779,033	373,483
Series 2017C	2,344,015	-	(104,383)	2,239,632	107,529
Total	<u>\$ 18,627,201</u>	<u>\$ -</u>	<u>\$ (829,503)</u>	<u>\$ 17,797,698</u>	<u>\$ 854,495</u>

On December 21, 2017, the Financing Corporation issued the Series 2017A, Series 2017B, and Series 2017C Refunding Bank Loans in the par amounts of \$10,000,000, \$10,000,000, and \$2,879,067, respectively, which represent direct placements. The final maturity of notes is October 1, 2040, with interest rates of 3%, 2.96%, and 3%, respectively.

The notes are subject to mandatory redemption at the option of the holder on or after December 21, 2027, upon written notice provided during the period commencing 90 days prior to the call date and ending 90 days following the call date. The notes are subject to mandatory redemption 180 days from the receipt of the notice from the holder.

FLORIDA SOUTHWESTERN STATE COLLEGE FINANCING CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
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NOTE 5 BONDS PAYABLE (CONTINUED)

The Financing Corporation's outstanding bonds from direct placements contain a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due. The Financing Corporation's outstanding bond from direct placements also contain a subjective acceleration clause that allows the lender to accelerate payment of the entire principal amount to become immediately due if the lender determines that a material adverse change occurs.

The following is a schedule of future debt service requirements:

<u>Year Ending March 31.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 854,495	\$ 524,543	\$ 1,379,038
2026	880,253	498,868	1,379,121
2027	906,772	472,419	1,379,191
2028	934,072	445,174	1,379,246
2029	962,210	417,109	1,379,319
2030 to 2034	5,263,720	1,634,059	6,897,779
2035 to 2039	6,103,477	794,187	6,897,664
2040	1,892,699	63,121	1,955,820
Total	<u>\$ 17,797,698</u>	<u>\$ 4,849,480</u>	<u>\$ 22,647,178</u>

Tenant revenues collected are pledged first to be used for debt service. The total amount of rental revenues recorded during 2024 was \$2,941,498.

Under the terms of the refunding notes, the Financing Corporation was required to fund the "debt service reserve fund." This was funded from the existing debt service reserve that had been established for the refunded bonds and \$1,463,333 is reported in restricted cash and cash equivalents.

NOTE 6 LEASE AGREEMENT

On August 1, 2010, the Financing Corporation entered into a Master Lease Agreement with the College for the properties occupied by the Charter Schools in both the Charlotte and Lee Campuses. The College leases the respective properties on its campuses to the Financing Corporation for a rental fee of \$1.00 per annum. The property covered by the Master Lease Agreement thereon is leased back to the College to manage and operate. The Financing Corporation records the revenue from this lease agreement as nonoperating revenues from auxiliary operations of the College.

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NOTE 7 RELATED PARTY TRANSACTIONS

Nonoperating revenues totaling \$410,901 were received from the College during the year ended March 31, 2024, and consisted of funds assigned to the Financing Corporation from College auxiliary operations and from two charter school building leases. The assigned funds totaled \$10,901 from College auxiliary operations and \$400,000 from the charter school leases, during the year ended March 31, 2024.

Financing Corporation personnel are employed by the College. The Financing Corporation paid the College \$150,000 to reimburse the College for the estimated salaries and related payroll taxes and benefits of its staff assigned to the Financing Corporation. The Financing Corporation also paid the College \$130,000 to reimburse the College for the estimated Financial, Accounting, and Legal services provided to the Financing Corporation. Additionally, the Financing Corporation paid the College \$182,000 to reimburse the College for contract and personnel services related to the operation of LightHouse Commons.

The Financing Corporation paid the College \$239,171 to reimburse the College for other expenses related to the operation of LightHouse Commons.

NOTE 8 ECONOMIC DEPENDENCE

The Financing Corporation is dependent upon the College to contribute resources until the occupancy rate in LightHouse Commons reaches a level that allows the Financing Corporation to cover its operating expenses, as well as its debt service payment. Loss of these funds and/or large decreases in these types of funding would have a material effect on the Financing Corporation and a negative impact on overall operations.

NOTE 9 RISK MANAGEMENT

The Financing Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims have not exceeded commercial insurance coverage in any of the last three year.



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

Board of Directors
Florida SouthWestern State College Financing Corporation
Fort Myers, Florida

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 SouthWestern State College Financing Corporation (the Financing Corporation) as of and for the year ended March 31, 2024, and the related notes to the financial statements, which collectively comprise the Financing Corporation's basic financial statements, and have issued our report thereon dated July 15, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Fort Myers, Florida
July 15, 2024