

FLORIDA POLYTECHNIC UNIVERSITY

Financial Audit

For the Fiscal Year Ended
June 30, 2013



BOARD OF TRUSTEES AND CHIEF OPERATING OFFICER

Members of the Board of Trustees and Chief Operating Officer who served during the 2012-13 fiscal year are listed below:

Robert H. Gidel, Chair from 8-01-12 (1)
R. Mark Bostick, Vice Chair from 8-01-12 (1)
William M. Brown
Joseph L. Caruncho
Dr. Sandra Featherman
Dr. Richard "Dick" Hallion
Scott J. Hammack
Kevin M. Hyman
Frank T. Martin
Robert W. Stork
Donald H. Wilson
Vacancies (2)

Ava L. Parker, Chief Operating Officer

Notes: (1) Chair and Vice Chair positions were vacant from July 1, 2012, to July 31, 2012.
(2) Faculty Senate Chair and Student Body President positions remained vacant through June 30, 2013.

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 audit team leader was Marc J. Wilson, CPA, and the audit was supervised by Philip B. Ciano, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 412-2869.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FLORIDA POLYTECHNIC UNIVERSITY
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the University's basic financial statements 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 Polytechnic 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, 2013. 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.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent University records in connection with the application of procedures required by 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.



DAVID W. MARTIN, 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 Polytechnic University, a component unit of the State of Florida, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which 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 an opinion on these financial statements based on our audit. 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 opinion.

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Polytechnic University as of June 30, 2013, and the changes in financial position and 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**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required 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 on our consideration of Florida Polytechnic 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 THE 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Florida Polytechnic University's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 3, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The 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, 2013, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal year ended June 30, 2013.

On April 20, 2012, the Governor signed Senate Bill 1994 (codified as Chapter 2012-129, Laws of Florida), creating Florida Polytechnic University (University) in Lakeland, Florida. The law creating the University, formerly a branch campus of the University of South Florida (USF), mandates that all real and personal property, licenses and associated revenues, existing contracts, unexpended balances, appropriations, allocations, funds, and mutually agreed-upon obligations, responsibilities, and liabilities of USF which relate to USF Polytechnic campus, as determined by the Board of Trustees of USF and the Board of Trustees of the University, be transferred to the University. The required transfer was substantially completed during the 2012-13 fiscal year. The University's primary mission is to educate students in science, technology, engineering, and mathematics (STEM). The University, which is not currently accredited, expects to begin admitting students in the fall of 2014 and is in the process of applying for regional accreditation.

The primary financial activities of the University during the 2012-13 fiscal year were the construction of educational facilities and preparing for its first class. On September 24, 2012, the Board of Trustees of the University approved entering into an agreement with the University of Florida (UF) under which UF agreed to perform various administrative services for the University including, but not limited to, assisting in the development of appropriate policies, procedures, and internal controls related to financial operations, contract and grant management, human resources and administration, purchasing and contract management, records management, and asset management as well as compliance with Board of Governors reporting requirements. In accordance with the terms of the agreement, the University made an initial one-time payment of \$250,000 to UF to cover the costs of establishing these services. The agreement also provides that the University pay UF a base fee equal to 10 percent of the University's operating expenses per year and 0.25 percent of capital expenses. Services under the agreement, which became effective on October 31, 2012, were on-going at June 30, 2013, and will continue until the agreement is terminated by either party with a 90-day written notice of intent to cancel.

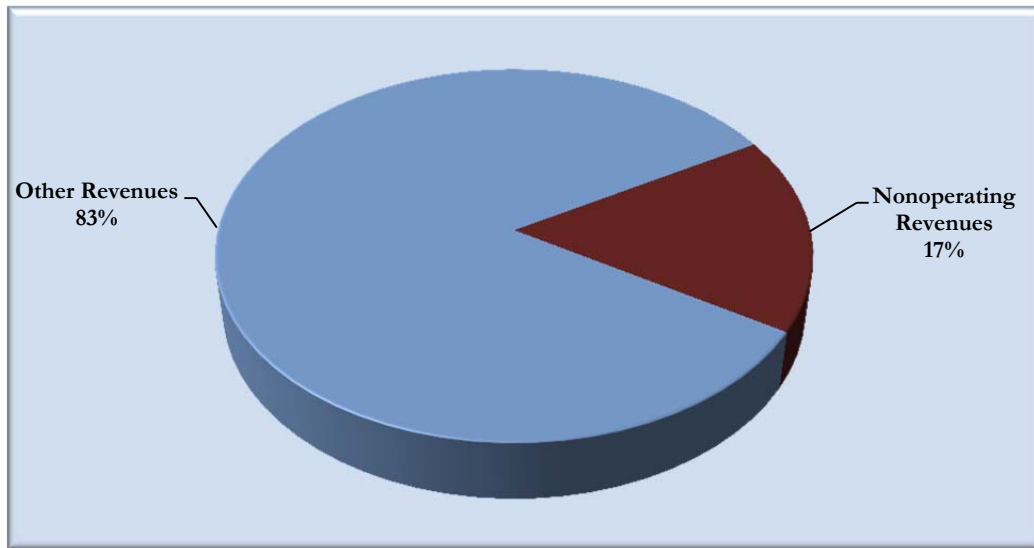
FINANCIAL HIGHLIGHTS

At June 30, 2013, the University's assets totaled \$155 million, consisting of \$5.5 million in cash, \$51.9 million in investments, \$11.9 million in Public Education Capital Outlay funds due from the State for construction of University facilities, and \$85.6 million in capital assets, net of accumulated depreciation. Liabilities totaled \$14.7 million, consisting primarily of \$8.7 million in construction contracts payable and \$5.3 million deposits held in custody on behalf of Florida Polytechnic University Foundation, Inc. At June 30, 2013, the University's net position was \$140.3 million.

The University had no operating revenues during the 2012-13 fiscal year. The University's operating expenses for the 2012-13 fiscal year totaled \$2.8 million.

The following chart provides a graphical presentation of University revenues by category for the 2012-13 fiscal year:

Total Revenues



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University’s financial report includes three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

Florida Polytechnic University Foundation, Inc. (Foundation), was formed in November 2012 for the benefit of the University. However, operations of the Foundation have not begun and, accordingly, no financial information is reported. This MD&A focuses on the financial activities of the University.

THE STATEMENT OF NET POSITION

The statement of net position reflects the assets and liabilities of the University, using the accrual basis of accounting, and presents the financial position of the University at a specified point in time. Assets less liabilities equal 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, liabilities, and net position at June 30, 2013:

**Condensed Statement of Net Position
(In Thousands)**

	<u>Amount</u>
Assets	
Current Assets	\$ 32,761
Capital Assets, Net	85,592
Other Noncurrent Assets	<u>36,664</u>
Total Assets	<u>155,017</u>
Liabilities	
Current Liabilities	14,591
Noncurrent Liabilities	<u>102</u>
Total Liabilities	<u>14,693</u>
Net Position	
Investment in Capital Assets	85,592
Restricted	34,600
Unrestricted	<u>20,132</u>
Total Net Position	<u>\$ 140,324</u>

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 2012-13 fiscal year:

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
(In Thousands)**

	<u>Amount</u>
Operating Revenues	\$ -
Less, Operating Expenses	<u>2,839</u>
Operating Loss	(2,839)
Nonoperating Revenues	<u>24,085</u>
Income Before Other Revenues, Expenses, Gains, or Losses	21,246
Other Revenues, Expenses, Gains, or Losses	<u>119,078</u>
Increase in Net Position	140,324
Net Position, Beginning of Year	<u>-</u>
Net Position, End of Year	<u>\$ 140,324</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. There were no operating revenues during the 2012-13 fiscal year because the University will not start registering students until the fall of 2014 semester.

Operating Expenses

Expenses are categorized as operating or nonoperating. All 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 classifications in the notes to financial statements.

The following summarizes the operating expenses by natural classification for the 2012-13 fiscal year:

Operating Expenses (In Thousands)		<u>Amount</u>
Compensation and Employee Benefits	\$	1,115
Services and Supplies		1,601
Utilities and Communications		76
Depreciation		<u>47</u>
Total Operating Expenses	\$	<u>2,839</u>

Operating expenses are for administrative and educational purposes in preparation for the University's first academic class in the fall of 2014.

Nonoperating Revenues

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, investment income, and other nonoperating revenues are defined by GASB as nonoperating. The following summarizes the University's nonoperating revenues for the 2012-13 fiscal year:

Nonoperating Revenues (In Thousands)		<u>Amount</u>
State Noncapital Appropriations	\$	22,462
Investment Income		601
Other Nonoperating Revenues		<u>1,022</u>
Total Nonoperating Revenues	\$	<u>24,085</u>

Other Revenues, Expenses, Gains, or Losses

This category totaling \$119.1 million is composed entirely of State capital appropriations of \$37.6 million and capital grants, contracts, donations, including transfers from USF of \$118.6 million during the 2012-13 fiscal year.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the University's financial results by reporting the major sources and uses of cash. 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. 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 2012-13 fiscal year:

**Condensed Statement of Cash Flows
(In Thousands)**

	Amount
Cash Provided (Used) by:	
Operating Activities	\$ (2,545)
Noncapital Financing Activities	29,210
Capital and Related Financing Activities	30,218
Investing Activities	(51,359)
Cash, End of Year	\$ 5,524

Major sources of funds came from State noncapital appropriations (\$22.5 million); State capital appropriations (\$25.7 million); capital grants, contracts, donations, and fees (\$29.3 million); and proceeds from sales and maturities of investments (\$26.8 million). Major uses of funds were for the purchase or construction of capital assets (\$24.7 million) and purchases of investments (\$78.9 million).

CAPITAL ASSETS AND CAPITAL EXPENSES AND COMMITMENTS

CAPITAL ASSETS

Chapter 2012-129, Laws of Florida, required that the capital assets of USF Polytechnic campus be transferred to the University. At the time of transfer, the University received \$52.2 million in capital assets. These capital assets were recorded by the University at the same carrying value used by USF, which approximated fair market value on the date of transfer as determined by University management. At June 30, 2013, the University had net capital assets of \$85.6 million. Depreciation charges for the current fiscal year totaled \$47 thousand. The following table summarizes the University’s capital assets, net of accumulated depreciation, at June 30, 2013:

**Total Capital Assets, Net
(In Thousands)**

	Amount
Land	\$ 17,910
Construction in Progress	67,012
Infrastructure and Other Improvements	23
Furniture and Equipment	647
Capital Assets, Net	\$ 85,592

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

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses during the 2012-13 fiscal year were incurred on the Innovation, Science and Technology building; Campuswide Site and Infrastructure improvements; and Campus Control Center building, which were in the construction phase at fiscal year-end. The University’s major construction commitments at June 30, 2013, are as follows:

	Amount (In Thousands)
Total Committed	\$ 125,500
Completed to Date	<u>67,012</u>
Balance Committed	<u>\$ 58,488</u>

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University’s economic condition is closely tied to that of the State of Florida. During the 2013-14 fiscal year, it is anticipated that \$300 million will be restored to the base budget of State universities of which \$5.23 million will be the University’s share. Recent economic forecasts indicate the State’s economy is continuing to improve.

During the next fiscal year, the University will continue to add infrastructure to support faculty and students, provide for the development of information technologies, initiate the delivery of instruction, and provide support for future applied research. The University will continue to rely on State allocations in the coming year because students will not begin attending classes until the fall of 2014 at which time tuition and associated fees will begin to be collected.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, financial statements, and notes thereto, or requests for additional financial information should be addressed to Jason Warren, Accounting Coordinator, Florida Polytechnic University Administrative Offices, 439 South Florida Avenue, Suite 300, Lakeland, FL 33801.

BASIC FINANCIAL STATEMENTS

**FLORIDA POLYTECHNIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION
June 30, 2013**

	<u>Amount (In Thousands)</u>
ASSETS	
Current Assets:	
Cash	\$ 224
Investments	20,558
Interest Receivable	38
Due from State	11,941
Total Current Assets	32,761
Noncurrent Assets:	
Restricted Cash	5,300
Restricted Investments	31,364
Depreciable Capital Assets, Net	670
Nondepreciable Capital Assets	84,922
Total Noncurrent Assets	122,256
Total Assets	155,017
LIABILITIES	
Current Liabilities:	
Accounts Payable	101
Construction Contracts Payable	8,721
Salaries and Wages Payable	31
Deposits Held in Custody	5,726
Long-Term Liabilities - Current Portion:	
Compensated Absences Payable	12
Total Current Liabilities	14,591
Noncurrent Liabilities:	
Compensated Absences Payable	102
Total Liabilities	14,693
NET POSITION	
Investment in Capital Assets	85,592
Restricted for Expendable:	
Capital Projects	34,600
Unrestricted	20,132
TOTAL NET POSITION	\$ 140,324

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

FLORIDA POLYTECHNIC 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, 2013

	<u>Amount</u> <u>(In Thousands)</u>
REVENUES	
Operating Revenues	\$ -
EXPENSES	
Operating Expenses:	
Compensation and Employee Benefits	1,115
Services and Supplies	1,601
Utilities and Communications	76
Depreciation	47
Total Operating Expenses	<u>2,839</u>
Operating Loss	<u>(2,839)</u>
NONOPERATING REVENUES	
State Noncapital Appropriations	22,462
Investment Income	601
Other Nonoperating Revenues	1,022
Total Nonoperating Revenues	<u>24,085</u>
Income Before Other Revenues, Expenses, Gains, or Losses	21,246
State Capital Appropriations	37,626
Capital Grants, Contracts, Donations, and Fees	81,452
Increase in Net Position	140,324
Net Position, Beginning of Year	<u>-</u>
Net Position, End of Year	<u>\$ 140,324</u>

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

FLORIDA POLYTECHNIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013

	<u>Amount</u> <u>(In Thousands)</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to Employees	\$ (970)
Payments to Suppliers for Goods and Services	(1,575)
Net Cash Used by Operating Activities	<u>(2,545)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	22,462
Receipt of Funds Held for Others	5,726
Other Nonoperating Receipts	1,022
Net Cash Provided by Noncapital Financing Activities	<u>29,210</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	25,685
Capital Grants, Contracts, Donations, and Fees	29,269
Purchase or Construction of Capital Assets	(24,736)
Net Cash Provided by Capital and Related Financing Activities	<u>30,218</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	26,803
Purchase of Investments	(78,855)
Investment Income	693
Net Cash Used by Investing Activities	<u>(51,359)</u>
Net Increase in Cash	5,524
Cash, Beginning of Year	-
Cash, End of Year	<u>\$ 5,524</u>

**FLORIDA POLYTECHNIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2013**

	<u>Amount (In Thousands)</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (2,839)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	47
Change in Assets and Liabilities:	
Accounts Payable	102
Salaries and Wages Payable	31
Compensated Absences Payable	114
	114
NET CASH USED BY OPERATING ACTIVITIES	\$ (2,545)
 SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES AND NONCASH INVESTING ACTIVITIES	
Capital assets transferred from the University of South Florida Polytechnic campus were recognized as increases to capital grants, contracts, donations, and fees reported on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 52,183
Unrealized losses on investments were recognized as a reduction to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (130)

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

**FLORIDA POLYTECHNIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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 thirteen members. The Governor appoints six citizen members and the Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The chair of the faculty senate and the president of the student body of the University are also members, but these positions were not filled as of June 30, 2013. 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. The Trustees select the University President; however, a President had not been selected as of June 30, 2013. Once selected, the University President will serve as the executive officer and the corporate secretary of the Trustees, and will be responsible for administering the policies prescribed by the Trustees. Until a President is selected, the University's Chief Operating Officer serves in an executive capacity.

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.

Based on the application of the criteria for determining component units, Florida Polytechnic University Foundation, Inc., a direct-support organization (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011), is a discretely presented component unit of the University; however, operations of the Foundation have not begun and, accordingly, no financial information is reported. This legally separate, not-for-profit, corporation is organized and will operate to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services and is governed by a separate board.

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:

FLORIDA POLYTECHNIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

- 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

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets and liabilities 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, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities 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 principal operating activity during the 2012-13 fiscal year was institutional support, which consisted of system applications and implementation, marketing, and branding. Operating expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation on capital assets. Nonoperating revenues include State noncapital appropriations and investment income (net of unrealized losses on investments).

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.

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

Capital Assets. University capital assets consist of land, construction in progress, infrastructure and other improvements, and furniture and equipment. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair 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

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capitalized. Other costs for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$5,000 for tangible personal property and \$250,000 for new buildings and building improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Infrastructure and Other Improvements – 20 years
- Furniture and Equipment – 7 to 15 years

Noncurrent Liabilities. Noncurrent liabilities consist of compensated absences payable that are not scheduled to be paid within the next fiscal year.

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 not adopted a written investment policy. As such, pursuant to Section 218.415(17), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; 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; and Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency. Investments set aside to purchase or construct capital assets are classified as restricted.

The University reported investments at fair value totaling \$51,922,351 at June 30, 2013, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.65 years, and had a fair value factor of 0.9975 percent at June 30, 2013. 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.

3. DUE FROM STATE

This consists of \$11,941,323 of Public Education Capital Outlay due from the State to the University for construction of University facilities.

4. CAPITAL ASSETS

Chapter 2012-129, Laws of Florida, required the capital assets of USF Polytechnic campus be transferred to the University. At the time of transfer, the University received \$52,183,223 in capital assets.

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Capital assets activity for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Transfer from the University of South Florida Polytechnic Campus	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$	\$ 17,910,000	\$	\$	\$ 17,910,000
Construction in Progress		33,556,565	33,455,805		67,012,370
Total Nondepreciable Capital Assets	\$	\$ 51,466,565	\$ 33,455,805	\$	\$ 84,922,370
Depreciable Capital Assets:					
Infrastructure and Other Improvements	\$	\$ 25,171	\$	\$	\$ 25,171
Furniture and Equipment		691,487			691,487
Total Depreciable Capital Assets		716,658			716,658
Less, Accumulated Depreciation:					
Infrastructure and Other Improvements			1,746		1,746
Furniture and Equipment			44,800		44,800
Total Accumulated Depreciation			46,546		46,546
Total Depreciable Capital Assets, Net	\$	\$ 716,658	\$ (46,546)	\$	\$ 670,112

5. DEPOSITS HELD IN CUSTODY

At June 30, 2013, the University reported deposits held in custody of \$5,726,000 of which \$5,293,000 was being held on behalf of the Florida Polytechnic University Foundation, Inc.

6. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2013, consist of compensated absences payable. Long-term liabilities activity for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated Absences Payable	\$	\$ 113,932	\$	\$ 113,932	\$ 11,697

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual (vacation) and sick leave earned pursuant to Board of Governors regulations and University policies. 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 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, 2013, the estimated liability for compensated absences, which includes the University’s share of the Florida Retirement System and FICA contributions, totaled \$113,932. The current portion of the compensated absences liability, \$11,697, is the

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amount expected to be paid in the coming fiscal year as determined by applying the percentage of leave expected to be used to the total accrued leave liability.

7. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the University are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. 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. Members of both Plans 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.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

Class	<u>Percent of Gross Salary</u>	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy.

The University’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. There were six University participants in the Plan during the 2012-13 fiscal year. The University’s contributions including employee contributions for the fiscal year ended June 30, 2013, totaled \$4,134, which were equal to the required contributions for this fiscal year.

Financial statements and other supplementary information of the FRS are included in the State’s Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and

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other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating 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, on behalf of the participant, 5.64 percent of the participant’s salary, less a small amount used to cover administrative costs 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.

There were 13 University participants during the 2012-13 fiscal year. The University’s contributions to the Program totaled \$15,073 and employee contributions totaled \$8,301 for the 2012-13 fiscal year.

8. CONSTRUCTION COMMITMENTS

The University’s construction commitments at June 30, 2013, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
Innovation, Science, and Technology Building	\$ 78,300,000	\$ 50,717,885	\$ 27,582,115
Campuswide Site and Infrastructure Improvements	43,700,000	14,963,594	28,736,406
Campus Control Center Building	3,500,000	1,330,891	2,169,109
Total	\$ 125,500,000	\$ 67,012,370	\$ 58,487,630

9. 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 2012-13 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

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annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$50 million for named windstorm and flood losses. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers’ compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant.

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.

10. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (institutional support, student services, 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 non-academic departments for which the primary departmental function is institutional support may include other secondary activities. However, when the primary mission of the department consists of institutional support elements, all expenses of the department are reported under the institutional support 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>
Academic Support	\$ 45,418
Student Services	333,804
Institutional Support	2,413,339
Depreciation	46,546
Total Operating Expenses	\$ 2,839,107



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

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

Report on the Financial Statements

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 Polytechnic University, a component unit of the State of Florida, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which comprise the University's basic financial statements, and have issued our report thereon dated March 3, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**.

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 of 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 the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is solely to describe the scope of our testing of internal control and compliance and the result 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,



David W. Martin, CPA
Tallahassee, Florida
March 3, 2014