

Report No. 2016-073  
January 2016

**STATE OF FLORIDA AUDITOR GENERAL**

**Financial Audit**

**FLORIDA POLYTECHNIC UNIVERSITY**

For the Fiscal Year Ended  
June 30, 2015



Sherrill F. Norman, CPA  
Auditor General

## Board of Trustees and President

During the 2014-15 fiscal year, Dr. Randy K. Avent served as President and the following individuals served as Members of the Board of Trustees:

R. Mark Bostick, Vice Chair to 7-31-14, Chair from 8-1-14	Scott J. Hammack
Frank T. Martin, Vice Chair from 8-1-14	Dr. Robert I. MacCuspie to 4-28-15 <sup>b</sup>
Robert "Rob" H. Gidel to 7-31-14, Chair <sup>a</sup>	Andrei Moss from 10-1-14 to 4-21-15 <sup>c</sup>
William "Bill" M. Brown	Thomas "Tom" D. O'Malley
Dr. Christina Drake from 5-2-15 <sup>b</sup>	Veronica Perez Herrera from 4-22-15 <sup>c</sup>
Dr. Sandra Featherman	Dr. Robert P. Scaringe from 3-26-15 to 6-4-15 <sup>d</sup>
Dr. Richard "Dick" P. Hallion	Robert W. Stork
	Donald H. Wilson

Notes: <sup>a</sup> Board member resigned on July 31, 2014, and position remained vacant through June 30, 2015.

<sup>b</sup> Faculty senate chair, vacant from April 29, 2015, through May 1, 2015.

<sup>c</sup> Student body president, first elected October 1, 2014.

<sup>d</sup> Position remained vacant from July 1, 2014, through March 25, 2015, and June 5, 2015, through June 30, 2015.

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 Becky D. Grode, CPA, and the audit was supervised by David A. Blanton, CPA.

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

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**State of Florida Auditor General**

**Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722**

**FLORIDA POLYTECHNIC UNIVERSITY**  
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# SUMMARY

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## SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Florida Polytechnic 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 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, 2015. 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.

The results of our operational audit of the University are included in our report No. 2016-067.

## 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.



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

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



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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Florida Polytechnic University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2015, 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 discretely presented component unit, which represents 100 percent of the transactions and account balances of the discretely presented component unit columns. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report 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 report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Polytechnic University and of its discretely presented component unit as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Notes 2 and 3 to the financial statements, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is a change in accounting principle that requires an employer participating in a cost-sharing multiple employer defined benefit pension plan to report the employer's proportionate share of the net pension liability of the defined benefit pension plan. This affects the comparability of amounts reported in the 2014-15 fiscal year with the amounts reported for the 2013-14 fiscal year. Our opinion is not modified with respect to this matter.

### ***Other Matter***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, 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 on our consideration of the 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 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 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 Polytechnic University's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
January 8, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

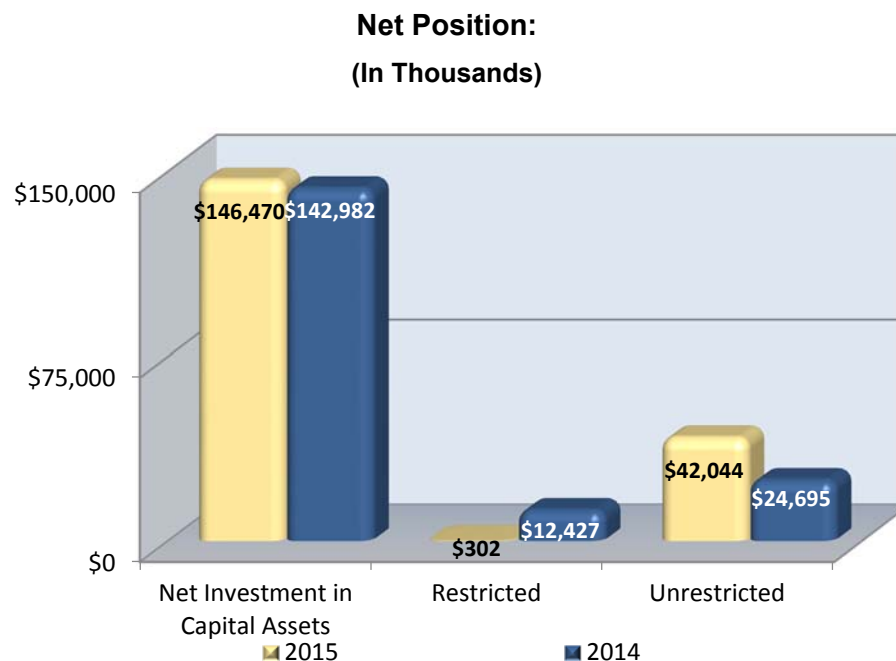
The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2015, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2015, and June 30, 2014.

### FINANCIAL HIGHLIGHTS

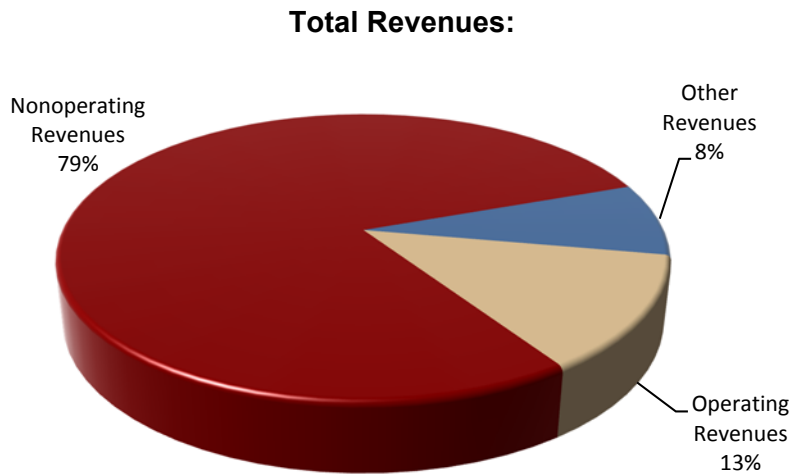
The University's assets and deferred outflows of resources totaled \$201.6 million at June 30, 2015. This balance reflects a \$5.3 million, or 3 percent, increase as compared to the 2013-14 fiscal year, resulting from increases in current assets, capital assets, and deferred outflows of resources. Liabilities and deferred inflows of resources decreased by \$3.4 million, or 21 percent, totaling \$12.8 million at June 30, 2015. As a result, the University's net position increased by \$8.7 million, resulting in a year-end balance of \$188.8 million.

The University's operating revenues totaled \$5.3 million for the 2014-15 fiscal year, an increase of \$5.1 million compared to the 2013-14 fiscal year. This substantial increase was the result of the first year of academic operations in the 2014-15 fiscal year. Operating expenses totaled \$32.7 million for the 2014-15 fiscal year, representing an increase of 104 percent as compared to the 2013-14 fiscal year due mainly to the commencement of full operations compared to the prior year's start-up operations in preparation for the opening of the University.

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, 2015, and June 30, 2014, is shown in the following graph:



The following chart provides a graphical presentation of University revenues by category for the 2014-15 fiscal year:



## OVERVIEW OF FINANCIAL STATEMENTS

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

Information regarding the component unit's separately issued financial statements is presented in the notes to financial statements. This MD&A focuses on the University, excluding the discretely presented component unit. MD&A information for Florida Polytechnic University Foundation, Inc., is included in its separately issued audit report.

### **The Statement of Net Position**

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

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

## Condensed Statement of Net Position at June 30

(In Thousands)

	2015	2014
<b>Assets</b>		
Current Assets	\$ 39,498	\$ 34,038
Capital Assets, Net	149,507	142,982
Other Noncurrent Assets	9,962	19,225
<b>Total Assets</b>	<b>198,967</b>	<b>196,245</b>
<b>Deferred Outflows of Resources</b>	<b>2,617</b>	<b>-</b>
<b>Liabilities</b>		
Current Liabilities	6,604	15,250
Noncurrent Liabilities	5,146	891
<b>Total Liabilities</b>	<b>11,750</b>	<b>16,141</b>
<b>Deferred Inflows of Resources</b>	<b>1,018</b>	<b>-</b>
<b>Net Position</b>		
Net Investment in Capital Assets	146,470	142,982
Restricted	302	12,427
Unrestricted	42,044	24,695
<b>Total Net Position</b>	<b>\$ 188,816</b>	<b>\$ 180,104</b>

Current assets increased \$5.5 million or 16 percent due primarily to increases in cash and investments as a result of increases in State noncapital appropriations, grants and contracts, and student tuition and fees.

Deferred outflows of resources increased \$2.6 million due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*.

Total liabilities decreased by \$4.4 million primarily as a result of the completion of major construction projects and the related liability for construction contracts payable.

Deferred inflows of resources increased \$1 million due to the implementation of GASB Statement No. 68.

Net position is reported in three major categories. The first category, net investment in capital assets, provides the University's equity in property, plant, and equipment owned by the University. Restricted net position is another category, which may be further broken down into nonexpendable and expendable. Restricted nonexpendable net position represents funds that have been donated to the University that are required to be invested in perpetuity. This net position component is primarily maintained within the Florida Polytechnic University Foundation, Inc., a component unit of the University. Restricted expendable net position is available for use by the University, but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position and is available for any lawful purpose of the University.

## **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 2014-15 and 2013-14 fiscal years:

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

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
Operating Revenues	\$ 5,311	\$ 259
Less, Operating Expenses	<u>32,677</u>	<u>16,029</u>
<b>Operating Loss</b>	(27,366)	(15,770)
Net Nonoperating Revenues	<u>32,656</u>	<u>40,100</u>
<b>Income Before Other Revenues, Expenses, Gains, or Losses</b>	5,290	24,330
Other Revenues, Expenses, Gains, or Losses	<u>3,400</u>	<u>15,450</u>
<b>Net Increase In Net Position</b>	<u>8,690</u>	<u>39,780</u>
Net Position, Beginning of Year	180,104	140,324
Adjustments to Beginning Net Position (1)	<u>22</u>	<u>-</u>
<b>Net Position, Beginning of Year, as Restated</b>	<u>180,126</u>	<u>140,324</u>
<b>Net Position, End of Year</b>	<u><u>\$ 188,816</u></u>	<u><u>\$ 180,104</u></u>

Note: (1) Adjustment to beginning net position due to the implementation of GASB Statement No. 68, which is a change in accounting principle that requires employers participating in cost-sharing multiple employer defined benefit pension plans to report the employers' proportionate share of the net pension liability of the defined benefit pension plans.

### **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 2014-15 and 2013-14 fiscal years:

**Operating Revenues  
For the Fiscal Years**

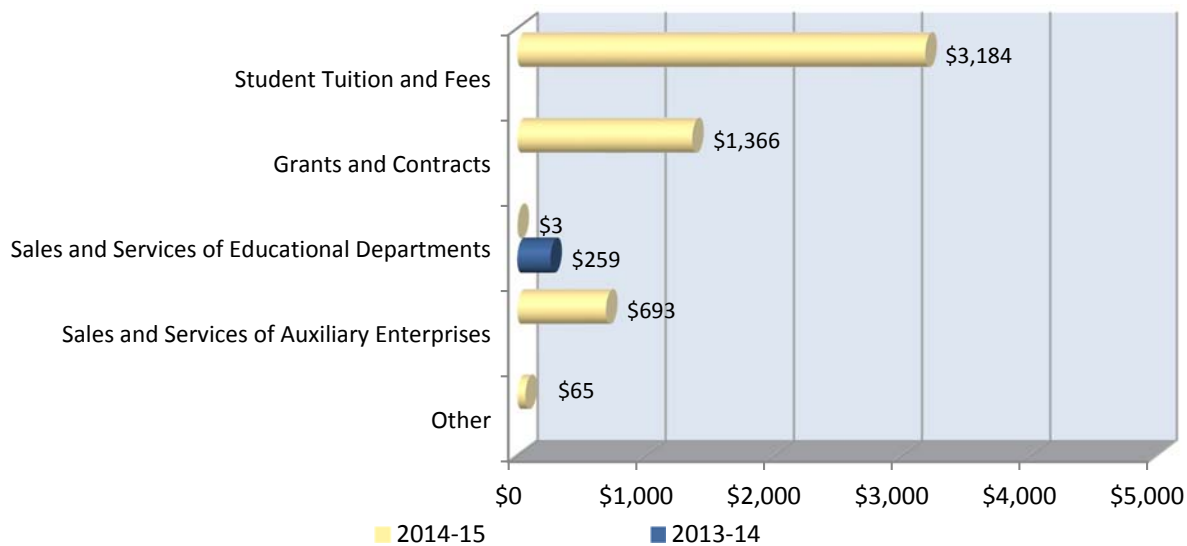
(In Thousands)

	<b>2014-15</b>	<b>2013-14</b>
Student Tuition and Fees	\$ 3,184	\$ -
Grants and Contracts	1,366	-
Sales and Services of Educational Departments	3	259
Sales and Services of Auxiliary Enterprises	693	-
Other	65	-
<b>Total Operating Revenues</b>	<b>\$ 5,311</b>	<b>\$ 259</b>

The following chart presents the University's operating revenues for the 2014-15 and 2013-14 fiscal years:

**Operating Revenues:**

(In Thousands)



University operating revenues increased \$5.1 million primarily as a result of increases in tuition and fees and grants and contracts from the first year of academic operations.

**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.

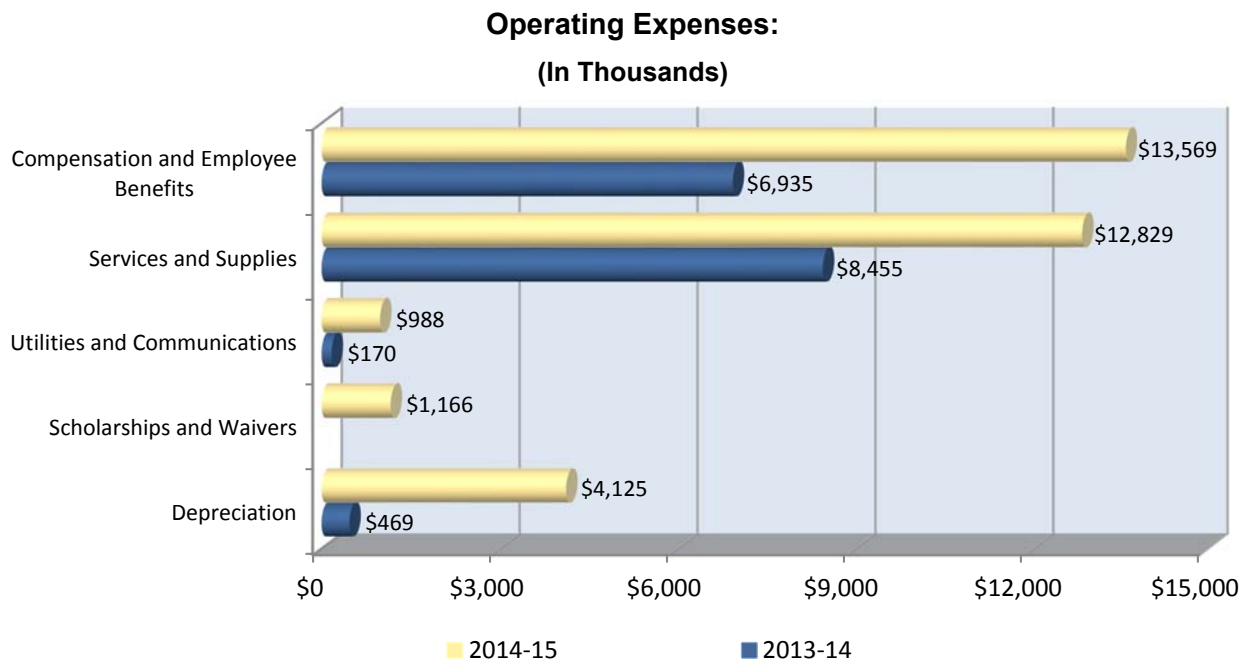
The following summarizes operating expenses by natural classification for the 2014-15 and 2013-14 fiscal years:

## Operating Expenses

(In Thousands)

	2014-15	2013-14
Compensation and Employee Benefits	\$ 13,569	\$ 6,935
Services and Supplies	12,829	8,455
Utilities and Communications	988	170
Scholarships and Waivers	1,166	-
Depreciation	4,125	469
<b>Total Operating Expenses</b>	<b>\$ 32,677</b>	<b>\$ 16,029</b>

The following chart presents the University's operating expenses for the 2014-15 and 2013-14 fiscal years:



Total operating expenses increased by \$16.6 million mainly attributable to increases in compensation and benefits and increases in services and supplies resulting from the University's first year of academic operations.

### **Nonoperating Revenues and Expenses**

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2014-15 and 2013-14 fiscal years:

## Nonoperating Revenues (Expenses)

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
State Noncapital Appropriations	\$ 32,302	\$ 29,887
Noncapital Grants, Contracts, and Gifts	-	8,832
Investment Income	607	994
Unrealized Loss on Investments	(277)	-
Other Nonoperating Revenues	115	395
Loss on Disposal of Capital Assets	(29)	(8)
Interest on Capital Asset-Related Debt	(43)	-
Other Nonoperating Expenses	(19)	-
<b>Net Nonoperating Revenues</b>	<b><u>\$ 32,656</u></b>	<b><u>\$ 40,100</u></b>

Total net nonoperating revenues decreased by \$7.4 million primarily as a result of the one-time transfer of the Florida Industrial and Phosphate Research Institute (FIPR) from the University of South Florida (USF) to the University in the prior year, partially offset by an increase in State noncapital appropriations.

### **Other Revenues, Expenses, Gains, or Losses**

This category is composed of capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2014-15 and 2013-14 fiscal years:

### **Other Revenues, Expenses, Gains, or Losses**

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
Capital Grants, Contracts, Donations, and Fees	<u>\$ 3,400</u>	<u>\$ 15,450</u>

Total other revenues, expenses, gains or losses of \$15.5 million in the 2013-14 fiscal year included a transfer of assets from USF to the University. Current year capital grants, contracts, donations, and fees totaling \$3.4 million relate to reimbursement from Polk County for capital infrastructure costs.

### **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 2014-15 and 2013-14 fiscal years:

## Condensed Statement of Cash Flows

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
Cash Provided (Used) by:		
Operating Activities	\$ (24,284)	\$ (12,791)
Noncapital Financing Activities	31,080	39,945
Capital and Related Financing Activities	(10,486)	(32,369)
Investing Activities	4,651	(170)
	<hr/>	<hr/>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	961	(5,385)
Cash and Cash Equivalents, Beginning of Year	139	5,524
	<hr/>	<hr/>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,100</u>	<u>\$ 139</u>

Major sources of funds came from State noncapital appropriations (\$32.3 million), student tuition and fees (\$3 million), and capital grants, contracts, donations, and fees (\$3.4 million). Major uses of funds were for payments made to and on behalf of employees totaling \$12.8 million; payments to suppliers totaling \$15.5 million; and purchase or construction of capital assets totaling \$13.2 million. The net cash used by operating activities increased by \$11.5 million, primarily as a result of increases in payments to employees and suppliers as the University began its first year of classes. The net cash provided by noncapital financing activities decreased by \$8.9 million primarily as a result of the one-time transfer of other nonoperating receipts totaling \$8.8 million associated with FIPR cash balances transferred and recognized in the 2013-14 fiscal year. Cash used by capital and related financing activities decreased \$21.9 million as a result of the completion of the Innovation, Science, and Technology (IST) building and other campus-wide infrastructure improvements. The net cash provided by investing activities increased by \$4.8 million as a result of proceeds from sale and maturities of investments offset by purchases of investments.

<b>CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION</b>
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### **Capital Assets**

At June 30, 2015, the University had \$154.1 million in capital assets, less accumulated depreciation of \$4.6 million, for net capital assets of \$149.5 million. Depreciation charges for the current fiscal year totaled \$4.1 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

## Capital Assets, Net at June 30

(In Thousands)

	<u>2015</u>	<u>2014</u>
Land	\$ 17,910	\$ 17,910
Construction in Progress	634	112,966
Buildings	87,080	3,837
Infrastructure and Other Improvements	36,629	3,598
Furniture and Equipment	4,227	1,384
Library Resources	12	44
Works of Art and Historical Treasures	12	13
Other Capital Assets	3,003	3,230
<b>Capital Assets, Net</b>	<u><u>\$ 149,507</u></u>	<u><u>\$142,982</u></u>

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

### **Capital Expenses and Commitments**

The University's construction commitments at June 30, 2015, are as follows:

	<u>Amount</u> <u>(In Thousands)</u>
Total Committed	\$ 4,340
Completed to Date	634
Balance Committed	<u><u>\$ 3,706</u></u>

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

### **Debt Administration**

As of June 30, 2015, the University had \$3 million in outstanding installment purchases payable, representing an increase of \$3 million, or 100 percent, from the prior fiscal year. Additional information about the University's long-term debt is presented in the notes to financial statements.

## ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University's economic condition is closely tied to that of the State of Florida. The budget adopted by the Florida Legislature for the 2015-16 fiscal year provided a 4.8 percent increase over the beginning base budget for State universities. This budget incorporated performance-based funding measures which negatively impact the proportional share for Florida Polytechnic University. This resulted in a minor decrease in State funding. The University is in its second year of having fee paying students and enrollment is projected to increase. This should offset the reduction in funding from the State of Florida. The University is conservative in its operations electing to remain well within its budget.

## 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 Mark Mroczkowski, Vice President/Chief Financial Officer, Florida Polytechnic University, 4700 Research Way, Lakeland Florida, 33805-8531.

# **BASIC FINANCIAL STATEMENTS**

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**Florida Polytechnic University  
A Component Unit of the State of Florida  
Statement of Net Position**

**June 30, 2015**

	<u>University</u>	<u>Component Unit</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,099,656	\$ -
Investments	38,286,084	-
Accounts Receivable	46,694	616,657
Interest Receivable	41,138	-
Due from University	-	4,639,008
Other Current Assets	24,404	-
<b>Total Current Assets</b>	<u>39,497,976</u>	<u>5,255,665</u>
Noncurrent Assets:		
Restricted Investments	9,962,079	-
Depreciable Capital Assets, Net	130,962,874	-
Nondepreciable Capital Assets	18,543,961	-
<b>Total Noncurrent Assets</b>	<u>159,468,914</u>	<u>-</u>
<b>Total Assets</b>	<u>198,966,890</u>	<u>5,255,665</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Amounts Related to Pensions	2,616,744	-
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	322,728	18,521
Construction Contracts Payable	120,766	-
Salary and Wages Payable	494,118	-
Deposits Payable	124,032	-
Due to Component Unit	4,639,008	-
Other Current Liabilities	-	2,960,534
Long-Term Liabilities - Current Portion:		
Installment Purchases Payable	724,466	-
Compensated Absences Payable	146,571	-
Net Pension Liability	31,844	-
<b>Total Current Liabilities</b>	<u>\$ 6,603,533</u>	<u>\$ 2,979,055</u>

**Florida Polytechnic University**  
**A Component Unit of the State of Florida**  
**Statement of Net Position (Continued)**

**June 30, 2015**

	<b>University</b>	<b>Component Unit</b>
<b>LIABILITIES (Continued)</b>		
Noncurrent Liabilities:		
Installment Purchases Payable	\$ 2,312,613	\$ -
Compensated Absences Payable	1,319,138	-
Other Postemployment Benefits Payable	65,000	-
Net Pension Liability	1,449,313	-
<b>Total Noncurrent Liabilities</b>	5,146,064	-
<b>Total Liabilities</b>	11,749,597	2,979,055
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Amounts Related to Pensions	1,018,431	-
<b>NET POSITION</b>		
Net Investment in Capital Assets	146,469,756	-
Restricted for Nonexpendable:		
Endowment	-	191,631
Restricted for Expendable:		
Scholarships	301,776	771,963
Other	-	528,461
Unrestricted	42,044,074	784,555
<b>TOTAL NET POSITION</b>	<b>\$ 188,815,606</b>	<b>\$ 2,276,610</b>

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, 2015

	University	Component Unit
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees	\$ 3,184,132	\$ -
Federal Grants and Contracts	280,985	-
State and Local Grants and Contracts	37,500	-
Nongovernmental Grants and Contracts	1,047,308	-
Sales and Services of Educational Departments	3,421	-
Sales and Services of Auxiliary Enterprises	692,868	-
Contributions, Net	-	2,940,304
Other Operating Revenues	64,980	-
	<b>5,311,194</b>	<b>2,940,304</b>
<b>EXPENSES</b>		
Operating Expenses:		
Compensation and Employee Benefits	13,568,989	-
Services and Supplies	12,828,828	-
Utilities and Communications	988,224	-
Scholarships and Waivers	1,166,016	-
Depreciation	4,124,819	-
Other Operating Expenses	-	3,384,224
	<b>32,676,876</b>	<b>3,384,224</b>
<b>Operating Loss</b>	<b>(27,365,682)</b>	<b>(443,920)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Noncapital Appropriations	32,302,139	-
Investment Income	606,638	114,768
Unrealized Loss on Investments	(276,857)	-
Other Nonoperating Revenues	115,147	-
Loss on Disposal of Capital Assets	(28,840)	-
Interest on Capital Asset-Related Debt	(42,974)	-
Other Nonoperating Expenses	(19,241)	-
	<b>32,656,012</b>	<b>114,768</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<b>5,290,330</b>	<b>(329,152)</b>
Capital Grants, Contracts, Donations, and Fees	3,400,000	-
Additions to Permanent Endowments	-	126,450
	<b>8,690,330</b>	<b>(202,702)</b>
<b>Increase (Decrease) in Net Position</b>	<b>8,690,330</b>	<b>(202,702)</b>
Net Position, Beginning of Year	180,103,331	2,479,312
Adjustment to Beginning Net Position	21,945	-
	<b>180,125,276</b>	<b>2,479,312</b>
<b>Net Position, Beginning of Year, as Restated</b>	<b>180,125,276</b>	<b>2,479,312</b>
<b>Net Position, End of Year</b>	<b>\$ 188,815,606</b>	<b>\$ 2,276,610</b>

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, 2015**

	<b>University</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student Tuition and Fees	\$ 3,036,036
Grants and Contracts	1,365,793
Sales and Services of Educational Departments	3,421
Sales and Services of Auxiliary Enterprises	692,868
Payments to Employees	(12,759,956)
Payments to Suppliers for Goods and Services	(15,521,662)
Payments to Students for Scholarships	(1,166,016)
Other Operating Receipts	64,980
	<b>(24,284,536)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Noncapital Appropriations	32,302,139
Net Change in Funds Held for Others	(1,209,835)
Other Nonoperating Receipts	115,147
Other Nonoperating Disbursements	(127,749)
	<b>31,079,702</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital Grants, Contracts, Donations, and Fees	3,400,000
Purchase or Construction of Capital Assets	(13,165,498)
Principal Paid on Capital Debt	(677,454)
Interest Paid on Capital Debt	(42,974)
	<b>(10,485,926)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	44,527,983
Purchases of Investments	(40,506,785)
Investment Income	630,158
	<b>4,651,356</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>960,596</b>
Cash and Cash Equivalents, Beginning of Year	139,060
	<b>\$ 1,099,656</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 1,099,656</b>

**Florida Polytechnic University  
A Component Unit of the State of Florida  
Statement of Cash Flows (Continued)**

**For the Fiscal Year Ended June 30, 2015**

	<b>University</b>
<b>RECONCILIATION OF OPERATING LOSS</b>	
<b>TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (27,365,682)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,124,819
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Net Receivables	(39,095)
Other Assets	(24,404)
Accounts Payable	(1,095,764)
Salaries and Wages Payable	360,058
Unearned Revenue	(109,000)
Other Liabilities	(584,442)
Compensated Absences Payable	512,185
Other Postemployment Benefits Payable	32,000
Deferred Outflows of Resources Related to Pensions	(2,372,714)
Deferred Inflows of Resources Related Pensions	1,018,431
Net Pension Liability	1,259,072
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (24,284,536)</b>

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND  
CAPITAL FINANCING ACTIVITIES**

Unrealized losses on investments were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (276,857)
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.	\$ (28,840)
The University entered into several installment purchase agreements, which were recognized on the statement of net position, but are not cash transactions for the statement of cash flows.	\$ 3,714,533

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

# **NOTES TO FINANCIAL STATEMENTS**

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## **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 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 Unit.** Based on the application of the criteria for determining component units, the Florida Polytechnic University Foundation, Inc. (Foundation), a direct-support organization (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011) is included within the University's reporting entity as a discretely presented component unit. This legally separate, not-for-profit corporation is 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 is governed by a separate board. The Statute authorizes the Foundation to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. The Foundation solicits, collects, manages, and directs contributions to various academic departments and programs of the University, and assists the University in fund raising, and public relations.

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

**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

**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 unit uses the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follows GASB standards of accounting and financial reporting.

Significant interdepartmental sales between auxiliary service departments and other institutional departments have been accounted for as reductions of expenses and not revenues of those departments.

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, State student financial aid, investment income, and revenues 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.

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.

**Capital Assets.** University capital assets consist of land; construction in progress; buildings, infrastructure and other improvements; furniture and equipment; library resources; works of art and historical treasures; and other capital assets. 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 donations. 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, \$100,000 for infrastructure and other improvements, and \$250,000 for building renovations except that all new buildings and projects adding new square footage are capitalized. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 20 to 50 years
- Infrastructure and Other Improvements – 20 years
- Furniture and Equipment – 7 to 15 years
- Library Resources – 10 years
- Works of Art and Historical Treasures – 12 years
- Other Capital Assets – 10 years

**Noncurrent Liabilities.** Noncurrent liabilities include installment purchases payable, compensated absences payable, other postemployment benefits payable, and net pension liabilities that are not scheduled to be paid within the next fiscal year.

**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 position 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's and the HIS's fiduciary net position 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.

## **2. Reporting Changes**

The University implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires employers participating in cost-sharing multiple employer defined benefit pension plans to report the employers' proportionate share of the net pension liabilities of the defined benefit pension plans. The University participates in the FRS

defined benefit pension plan and the HIS defined benefit plan administered by the Florida Department of Management Services, Division of Retirement. The effects of implementing this Statement are discussed in a subsequent note.

### 3. Adjustment to Beginning Net Position

The beginning net position of the University was increased by \$21,945 due to the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 requires the University to recognize its proportionate share of the net pension liabilities and related pension amounts of the cost-sharing multiple employer FRS and HIS defined benefit plans.

### 4. Investments

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The Board of Trustees has not adopted a written investment policy. As such, pursuant to Section 218.415(17), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. 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 reported investments at fair value totaling \$48,248,163 at June 30, 2015, 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 2.67 years and fair value factor of 1.0013 at June 30, 2015. 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.

### 5. Receivables

**Accounts Receivable.** Accounts receivable represent amounts for student tuition and fees, and other reimbursements. As of June 30, 2015, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Student Tuition and Fees	\$ 45,071
Other	1,623
<b>Total Accounts Receivable</b>	<b>\$ 46,694</b>

No allowance has been accrued for the receivables. University management considers these to be fully collectible.

## 6. Due To Component Unit

The \$4,639,008 reported as due to component unit consists of amounts owed by the University to the Foundation pursuant to an agreement to invest funds on behalf of the Foundation.

## 7. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2015, 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	\$ 17,910,000	\$ -	\$ -	\$ 17,910,000
Construction in Progress	112,965,772	7,125,824	119,457,635	633,961
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 130,875,772</b>	<b>\$ 7,125,824</b>	<b>\$ 119,457,635</b>	<b>\$ 18,543,961</b>
Depreciable Capital Assets:				
Buildings	\$ 3,903,672	\$ 85,047,475	\$ -	\$ 88,951,147
Infrastructure and Other Improvements	3,725,171	34,541,569	-	38,266,740
Furniture and Equipment	1,531,078	3,421,027	-	4,952,105
Library Resources	44,596	274	28,840	16,030
Works of Art and Historical Treasures	14,887	-	-	14,887
Other Capital Assets	3,400,000	-	-	3,400,000
<b>Total Depreciable Capital Assets</b>	<b>12,619,404</b>	<b>123,010,345</b>	<b>28,840</b>	<b>135,600,909</b>
Less, Accumulated Depreciation:				
Buildings	67,296	1,804,241	-	1,871,537
Infrastructure and Other Improvements	126,825	1,511,252	-	1,638,077
Furniture and Equipment	146,873	578,178	-	725,051
Library Resources	372	3,303	-	3,675
Works of Art and Historical Treasures	1,850	1,178	-	3,028
Other Capital Assets	170,000	226,667	-	396,667
<b>Total Accumulated Depreciation</b>	<b>513,216</b>	<b>4,124,819</b>	<b>-</b>	<b>4,638,035</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 12,106,188</b>	<b>\$ 118,885,526</b>	<b>\$ 28,840</b>	<b>\$ 130,962,874</b>

## 8. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2015, include installment purchases payable, compensated absences payable, other postemployment benefits payable, and net pension liability. Long-term liabilities activity for the fiscal year ended June 30, 2015, is shown in the following table:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Installment Purchases Payable	\$ -	\$ 3,714,533	\$ 677,454	\$ 3,037,079	\$ 724,466
Compensated Absences Payable	953,524	595,462	83,277	1,465,709	146,571
Other Postemployment Benefits Payable	33,000	32,000	-	65,000	-
Net Pension Liability (1)	222,085	1,259,072	-	1,481,157	31,844
<b>Total Long-Term Liabilities</b>	<b>\$ 1,208,609</b>	<b>\$ 5,601,067</b>	<b>\$ 760,731</b>	<b>\$ 6,048,945</b>	<b>\$ 902,881</b>

Note: (1) The beginning balance resulted from the implementation of GASB Statement No. 68.

**Installment Purchases Payable.** The University has entered into several installment purchase agreements for the purchase of equipment reported at \$3,714,533. The stated interest rates ranged from 1.78 percent to 1.9 percent. Future minimum payments remaining under installment purchase agreements and the present value of the minimum payments as of June 30, 2015, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 724,466
2017	774,822
2018	774,822
2019	774,822
2020	106,356
<b>Total Minimum Payments</b>	<b>3,155,288</b>
Less, Amount Representing Interest	118,209
<b>Present Value of Minimum Payments</b>	<b>\$ 3,037,079</b>

**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, 2015, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$1,465,709. The current portion of the compensated absences liability, \$146,571, 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 plan (Plan). The University subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the Plan information is not included in the annual report of a public employee retirement system or another entity.

*Funding Policy.* 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 other postemployment benefit (OPEB) costs or the net OPEB obligation. Premiums necessary for funding the Plan each year on a pay-as-you-go basis are established by the Governor’s recommended budget and the General Appropriations Act. The University did not provide a contribution toward the annual OPEB cost because there were no retirees as of June 30, 2015.

*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, and changes in the University’s net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 22,000
Amortization of Unfunded Actuarial Accrued Liability	9,000
Interest on Normal Cost and Amortization	1,000
<b>Annual Required Contribution</b>	32,000
Interest on Net OPEB Obligation	1,000
Adjustment to Annual Required Contribution	(1,000)
<b>Annual OPEB Cost (Expense)</b>	32,000
Contribution Toward the OPEB Cost	-
<b>Increase in Net OPEB Obligation</b>	32,000
Net OPEB Obligation, Beginning of Year	33,000
<b>Net OPEB Obligation, End of Year</b>	<u>\$ 65,000</u>

The University’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2015, and for the preceding fiscal year of implementation 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>
2013-14	\$ 33,000	0.0%	33,000
2014-15	32,000	0.0%	65,000

*Funded Status and Funding Progress.* As of July 1, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$257,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$257,000, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$5,122,047 for the 2014-15 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The University's OPEB actuarial valuation as of July 1, 2013, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2015, and the University's 2014-15 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. The actuarial assumptions also included a payroll growth rate of 4 percent per year and an inflation rate of 3 percent. Initial healthcare cost trend rates were 7.21 percent, 7.89 percent, and 7.59 percent for the first 3 years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 6.95 percent, 7.64 percent, and 7.75 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 5 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.

## **9. 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 under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class (SMSC) employed by the State 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 Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the 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](http://www.dms.myflorida.com)).

The University's pension expense totaled \$463,032 for the 2014-15 fiscal year.

### **FRS Pension Plan**

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

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

Employees enrolled in the Plan prior to July 1, 2011, vest at 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 chart 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>
<b>Regular Class members initially enrolled before July 1, 2011</b>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<b>Regular Class members initially enrolled on or after July 1, 2011</b>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<b>Special Risk Regular</b>	
Service from December 1, 1970 through September 30, 1974	2.00
Service on and after October 1, 1974	3.00
<b>Senior Management Service Class</b>	2.00

As provided in Section 121.101, Florida Statutes, if the member is 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 is 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 2014-15 fiscal year were:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.37
FRS, Senior Management Service	3.00	21.14
FRS, Special Risk	3.00	19.82
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.28

Note: (1) Employer rates include 1.26 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.

The University's contributions to the plan totaled \$487,576 for the fiscal year ended June 30, 2015.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2015, the University reported a liability of \$588,671 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The University's proportionate share of the net pension liability was based on the University's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the University's proportionate share was 0.009648015 percent, which was an increase of 0.008834895 from its proportionate share measured as of June 30, 2013.

For the year ended June 30, 2015, the University recognized pension expense of \$297,041. 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	\$ -	\$ 36,429
Change of assumptions	101,948	-
Net difference between projected and actual earnings on pension plan investments	-	982,001
Changes in proportion and differences between University contributions and proportionate share of contributions	1,279,469	-
University contributions subsequent to the measurement date	487,576	-
<b>Total</b>	<b>\$ 1,868,993</b>	<b>\$ 1,018,430</b>

The deferred outflows of resources related to pensions totaling \$487,576, resulting from University contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. 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>
2016	\$ 8,271
2017	8,271
2018	8,271
2019	8,271
2020	253,771
Thereafter	76,132
<b>Total</b>	<b><u>\$ 362,987</u></b>

*Actuarial Assumptions.* The total pension liability in the July 1, 2014, 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	7.65 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, 2014, 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:

<b>Asset Class</b>	<b>Target Allocation (1)</b>	<b>Annual Arithmetic Return</b>	<b>Compound Annual (Geometric) Return</b>	<b>Standard Deviation</b>
Cash	1.00%	3.11%	3.10%	1.65%
Intermediate-Term Bonds	18.00%	4.18%	4.05%	5.15%
High Yield Bonds	3.00%	6.79%	6.25%	10.95%
Broad US Equities	26.50%	8.51%	6.95%	18.90%
Developed Foreign Equities	21.20%	8.66%	6.85%	20.40%
Emerging Market Equities	5.30%	11.58%	7.60%	31.15%
Private Equity	6.00%	11.80%	8.11%	30.00%
Hedge Funds / Absolute Return	7.00%	5.81%	5.35%	10.00%
Real estate (Property)	12.00%	7.11%	6.35%	13.00%
<b>Total</b>	<b>100.00%</b>			
Assumed inflation - Mean		2.60%		2.00%

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

*Discount Rate.* The discount rate used to measure the total pension liability was 7.65 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 7.65 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 (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	<b>1% Decrease (6.65%)</b>	<b>Current Discount Rate (7.65%)</b>	<b>1% Increase (8.65%)</b>
University's proportionate share of the net pension liability	\$ 2,517,823	\$ 588,671	\$ (1,016,016)

*Pension Plan Fiduciary Net Position.* Detailed information about the pension 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, 2015, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments are at least \$30 but not more than \$150 per month, pursuant

to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

*Contributions.* The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2015, the contribution rate was 1.26 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 \$70,668 for the fiscal year ended June 30, 2015.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2015, the University reported a liability of \$892,486 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 pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The University's proportionate share of the net pension liability was based on the University's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the University's proportionate share was 0.009545059 percent, which was an increase of 0.008601944 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the University recognized pension expense of \$165,991. In addition, the University reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 31,758
Net difference between projected and actual earnings on HIS pension plan investments	428
Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions	644,897
University contributions subsequent to the measurement date	70,668
<b>Total</b>	<b>\$ 747,751</b>

The deferred outflows of resources totaling \$70,668 was related to pensions resulting from University contributions subsequent to the measurement date and will be recognized as a reduction of the net

pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 109,245
2017	109,245
2018	109,245
2019	109,245
2020	109,138
Thereafter	130,965
<b>Total</b>	<u>\$ 677,083</u>

*Actuarial Assumptions.* The total pension liability in the July 1, 2014, 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	4.29 percent

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

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

*Discount Rate.* The discount rate used to measure the total pension liability was 4.29 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.

*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 4.29 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 (3.29 percent) or 1 percentage point higher (5.29 percent) than the current rate:

	<u>1% Decrease (3.29%)</u>	<u>Current Discount Rate (4.29%)</u>	<u>1% Increase (5.29%)</u>
University's proportionate share of the net pension liability	<u>\$ 1,015,131</u>	<u>\$ 892,486</u>	<u>\$ 790,113</u>

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

## 10. Retirement Plans – Defined Contribution Pension Plans

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in 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 plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the Investment Plan member accounts during the 2014-15 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, 2015, 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 \$62,773 for the fiscal year ended June 30, 2015.

**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, 2.54 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent 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.

The University's contributions to the Program totaled \$266,677 and employee contributions totaled \$182,316 for the 2014-15 fiscal year.

**11. Construction Commitments**

The University's construction commitments at June 30, 2015, are as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
East Parking Lots 6 and 8	\$ 1,692,986	\$ 4,035	\$ 1,688,951
Other Projects (1)	2,647,015	629,926	2,017,089
<b>Total</b>	<b>\$ 4,340,001</b>	<b>\$ 633,961</b>	<b>\$ 3,706,040</b>

Note: (1) Individual projects with current balance committed of less than \$1 million at June 30, 2015.

**12. 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 2014-15 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 \$54 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. 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.

### 13. 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	\$ 4,331,229
Research	1,274,299
Public Services	160,257
Academic Support	5,868,407
Student Services	3,437,609
Institutional Support	9,106,561
Operation and Maintenance of Plant	1,947,741
Scholarships and Waivers	1,166,016
Depreciation	4,124,819
Auxiliary Enterprises	1,259,938
<b>Total Operating Expenses</b>	<b>\$ 32,676,876</b>

### 14. Current Unrestricted Funds

The Southern Association of Colleges and Schools, which establishes the accreditation requirements for institutions of higher education, requires a disclosure of the financial position of unrestricted net position, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net position.

To meet this requirement, statements of net position and revenues, expenses, and changes in net position for the current unrestricted funds are presented, as follows:

**Statement of Current Unrestricted Funds Net Position**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	281
Investments		37,984,466
Accounts Receivable		45,708
Interest Receivable		38,440
Due From Other Funds		6,249,087

<b>TOTAL ASSETS</b>		44,317,982
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Amounts Related to Pensions		2,616,744
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**LIABILITIES**

Current Liabilities:

Accounts Payable		240,471
Due to Other Funds		120,766
Salary and Wages Payable		494,118
Due to Component Unit		5,000
Compensated Absences Payable		146,571
Net Pension Liability		31,844

<b>Total Current Liabilities</b>		1,038,770
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Noncurrent Liabilities:

Compensated Absences Payable		1,319,138
Other Postemployment Benefits Payable		65,000
Net Pension Liability		1,449,313

<b>Total Noncurrent Liabilities</b>		2,833,451
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<b>TOTAL LIABILITIES</b>		3,872,221
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**DEFERRED INFLOWS OF RESOURCES**

Deferred Amounts Related to Pensions		1,018,431
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<b>TOTAL NET POSITION</b>		\$ 42,044,074
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**Statement of Current Unrestricted Funds Revenues,  
Expenses, and Changes in Net Position**

**REVENUES**

Operating Revenues:	
Student Tuition and Fees	\$ 3,184,132
NonGovernmental Grants and Contracts	5,000
Sales and Services of Educational Departments	3,421
Sales and Services of Auxiliary Enterprises	692,868
Other Operating Revenues	<u>64,980</u>
<b>Total Operating Revenues</b>	<u><u>3,950,401</u></u>

**EXPENSES**

Operating Expenses:	
Compensation and Employee Benefits	12,973,649
Services and Supplies	12,795,817
Utilities and Communications	988,224
Scholarships and Waivers	<u>963,145</u>
<b>Total Operating Expenses</b>	<u><u>27,720,835</u></u>
<b>Operating Loss</b>	<u><u>(23,770,434)</u></u>

**NONOPERATING REVENUES (EXPENSES)**

State Noncapital Appropriations	32,302,139
Investment Income	436,452
Unrealized Loss on Investments	(135,638)
Other Nonoperating Revenues	86,307
Interest on Capital Asset-Related Debt	(42,974)
Other Nonoperating Expenses	<u>(738)</u>
<b>Net Nonoperating Revenues</b>	<u><u>32,645,548</u></u>

**Income Before Other Revenues,**

<b>Expenses, Gains, or Losses</b>	8,875,114
Transfers to Other Funds	<u>8,452,184</u>
<b>Increase in Net Position</b>	17,327,298
Net Position, Beginning of Year	24,694,831
Adjustment to Beginning Net Position	<u>21,945</u>
<b>Net Position, Beginning of Year, as Restated</b>	<u><u>24,716,776</u></u>
<b>Net Position, End of Year</b>	<u><u>\$ 42,044,074</u></u>

## 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]
7/1/2013	\$ -	\$ 257,000	\$ 257,000	0%	\$ 4,420,523	5.8%

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

	2014 (1)	2013 (1)
University's proportion of the FRS net pension liability	0.009648015%	0.000813120%
University's proportionate share of the FRS net pension liability	\$ 588,671	\$ 139,974
University's covered-employee payroll (2)	\$ 4,212,980	\$ 348,928
University's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	13.97%	40.12%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	96.09%	88.54%

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

(2) Covered-employee 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

	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 487,576	\$ 211,332
FRS contributions in relation to the contractually required contribution	(487,576)	(211,332)
FRS contribution deficiency (excess)	\$ -	\$ -
University's covered-employee payroll (2)	\$ 8,912,958	\$ 4,212,980
FRS contributions as a percentage of covered-employee payroll	5.47%	5.02%

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

(2) Covered-employee 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**

	2014 (1)	2013 (1)
University's proportion of the HIS net pension liability	0.009545059%	0.000943115%
University's proportionate share of the HIS net pension liability	\$ 892,486	\$ 82,111
University's covered-employee payroll (2)	\$ 2,508,042	\$ 55,192
University's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	35.58%	148.77%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	0.99%	1.78%

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

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

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

	2015 (1)	2014 (1)
Contractually required HIS contribution	\$ 70,668	\$ 32,698
HIS contributions in relation to the contractually required HIS contribution	(70,668)	(32,698)
HIS contribution deficiency (excess)	\$ -	\$ -
University's covered-employee payroll (2)	\$ 5,391,296	\$ 2,508,042
HIS contributions as a percentage of covered-employee payroll	1.31%	1.30%

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

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

<b>NOTES TO REQUIRED SUPPLEMENTARY INFORMATION</b>
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**1. Schedule of Net Pension Liability And Schedule of Contributions –  
Florida Retirement System Pension Plan**

*Changes of assumptions.* As of June 30, 2014, the inflation rate assumption was decreased from 3.00 percent to 2.60 percent, the real payroll growth assumption was decreased from 1.00 percent to 0.65 percent, and the overall payroll growth rate assumption was decreased from 4.00 percent to 3.25 percent. The long-term expected rate of return decreased from 7.75 percent to 7.65 percent.

**2. 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 4.63 percent to 4.29 percent.



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Auditor General

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida Polytechnic University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated January 8, 2016, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, 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**

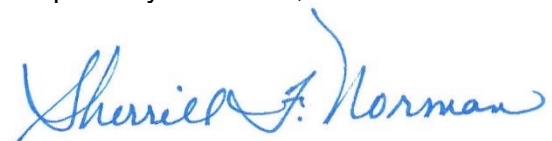
As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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*.

We noted certain matters that we reported to University management in our operational audit report No. 2016-067.

### **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 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 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  
January 8, 2016