

Report No. 2016-149
March 2016

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

**FLORIDA SOUTHWESTERN STATE
COLLEGE**

For the Fiscal Year Ended
June 30, 2015



Sherrill F. Norman, CPA
Auditor General

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The team leader was Cesar A. Mayorga and the audit was supervised by Deirdre F. Waigand, CPA.

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

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FLORIDA SOUTHWESTERN STATE COLLEGE
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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Florida SouthWestern State College (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 SouthWestern State College and its officers with administrative and stewardship responsibilities for College operations had:

- Presented the College'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 College's basic financial statements as of and for the fiscal year ended June 30, 2015. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

AUDIT METHODOLOGY

The methodology used to develop the findings in this report included the examination of pertinent College 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

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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 SouthWestern State College, 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 College'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 Florida SouthWestern State College Financing Corporation, a blended component unit, which represent 14.7 percent, 41.3 percent, 4.1 percent, and 3 percent, respectively, of the assets, liabilities, net position, and revenues reported for Florida SouthWestern State College. In addition, we did not audit the financial statements of the discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit's columns. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the blended and discretely presented component units, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit

to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida SouthWestern State College 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 College 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 College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan, Schedule of College Contributions – Florida Retirement System Pension Plan, Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan, Schedule of College 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 SouthWestern State College'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 SouthWestern State College's internal control over financial reporting and compliance

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 18, 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 College 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 College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2015, and June 30, 2014, its blended component unit Florida SouthWestern State College Financing Corporation for fiscal years ended March 31, 2015, and March 31, 2014, and its discretely presented component unit Florida SouthWestern State College Foundation, Inc., for the fiscal years ended March 31, 2015, and March 31, 2014.

The College's Board of Trustees approved the name change from Edison State College to Florida SouthWestern State College effective July 1, 2014, pursuant to Section 1001.60(2)(b), Florida Statutes.

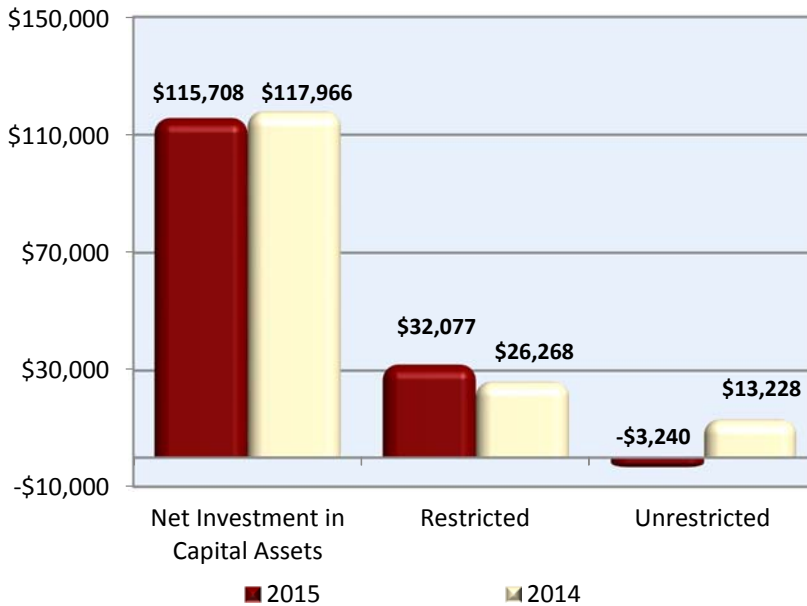
FINANCIAL HIGHLIGHTS

The College's assets and deferred outflows of resources totaled \$215.2 million at June 30, 2015. This balance reflects a \$6.4 million, or 3.1 percent, increase as compared to the 2013-14 fiscal year, resulting mainly from an increase in the current assets and deferred outflows of resources. Liabilities and deferred inflows of resources increased by \$19.3 million, or 37.7 percent, totaling \$70.7 million at June 30, 2015, compared to \$51.3 million at June 30, 2014. The increase is the result of the initial recording of the pension liability, in conjunction with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68. Additionally, the College reported deferred outflows of resources totaling \$4.1 million and deferred inflows of resources totaling \$7.4 million related to the net pension liability at June 30, 2015. See the notes to the financial statements for a comprehensive discussion of the impact of recording this liability. As a result, the College's net position decreased by \$12.9 million, resulting in a year-end balance of \$144.5 million.

The College's operating revenues totaled \$25.5 million for the 2014-15 fiscal year, representing a 25.5 percent increase compared to the 2013-14 fiscal year due mainly to an increase in net student tuition and fees and sales and services of auxiliary enterprises, primarily due to the change in methodology for calculating the allowance for doubtful accounts. Operating expenses totaled \$97.8 million for the 2014-15 fiscal year, representing an increase of 8.4 percent as compared to the 2013-14 fiscal year due mainly to an increase in scholarships and waivers.

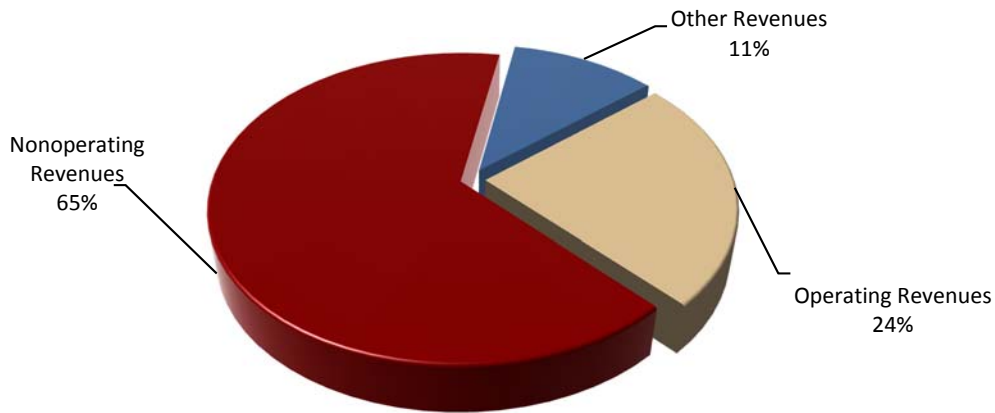
Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. As a result of the implementation of GASB Statement No. 68, the 2014-15 fiscal year beginning net position of the College was adjusted by \$18.1 million, representing the net amount of the beginning net pension liability and the deferred outflows of resources. The implementation of GASB Statement No. 68 was the primary reason why the unrestricted net position declined by \$16.5 million. The College'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:

Net Position: College
(In Thousands)



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

Total Revenues: College



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the College’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. These financial statements, and notes thereto, provide information on the College as a whole, present a long-term view of the College’s finances, and include activities for the following entities:

- Florida SouthWestern State College (Primary Institution) – Most of the programs and services generally associated with a college fall into this category, including instruction, public service, and support services. In addition, the College operates two collegiate high schools whose activities are also reflected herein.
- Florida SouthWestern State College Financing Corporation (Blended Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida. Based on the application of the criteria for determining component units, the Financing Corporation is included within the College’s reporting entity as a blended component unit. The Financing Corporation’s fiscal year is April 1st through March 31st. As a result, the Financing Corporation’s financial activities included in the MD&A and accompanying financial statements are for the fiscal years ended March 31, 2015, and 2014, respectively.
- Florida SouthWestern State College Foundation, Inc. (Discretely Presented Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida. The Foundation’s fiscal year is April 1st through March 31st. As a result, the Foundation’s financial activities presented in the MD&A and accompanying financial statements are for the fiscal years ended March 31, 2015, and 2014, respectively.

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 College, using the accrual basis of accounting, and presents the financial position of the College 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 College’s current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the College’s financial condition.

A condensed statement of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the College and its discretely presented component unit for the respective fiscal years ended is shown in the following table:

Condensed Statement of Net Position at

(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	3-31-15	3-31-14
Assets				
Current Assets	\$ 35,627	\$ 32,058	\$ 6,308	\$ 1,231
Capital Assets, Net	150,931	154,481	-	-
Other Noncurrent Assets	23,357	20,742	47,864	47,722
Total Assets	209,915	207,281	54,172	48,953
Deferred Outflows of Resources	5,312	1,517	-	-
Liabilities				
Current Liabilities	6,802	6,410	4,049	3,145
Noncurrent Liabilities	56,504	44,926	-	1,100
Total Liabilities	63,306	51,336	4,049	4,245
Deferred Inflows of Resources	7,376	-	-	-
Net Position				
Net Investment in Capital Assets	115,708	117,966	-	-
Restricted	32,077	26,268	46,689	41,323
Unrestricted	(3,240)	13,228	3,434	3,385
Total Net Position	\$ 144,545	\$ 157,462	\$ 50,123	\$ 44,708

The significant increases in the College's deferred outflows and inflows of resources and noncurrent liabilities and the significant decrease in the College's net position resulted mainly from the implementation of GASB Statement No. 68. Further information on the implementation of this reporting change can be found in Notes 2 and 3 of the notes to the financial statements.

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

The statement of revenues, expenses, and changes in net position presents the College'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 activities of the College and its discretely presented component unit for the respective fiscal years ended:

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

(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	3-31-15	3-31-14
Operating Revenues	\$ 25,488	\$ 20,317	\$ 5,786	\$ 1,124
Less, Operating Expenses	97,793	90,227	2,842	3,488
Operating Income (Loss)	(72,305)	(69,910)	2,944	(2,364)
Net Nonoperating Revenues	65,701	63,649	1,866	4,413
Income (Loss) Before Other Revenues	(6,604)	(6,261)	4,810	2,049
Other Revenues	11,764	8,670	605	237
Net Increase In Net Position	5,160	2,409	5,415	2,286
Net Position, Beginning of Year	157,462	155,350	44,708	42,422
Adjustments to Beginning Net Position (1)	(18,077)	(297)	-	-
Net Position, Beginning of Year, as Restated	139,385	155,053	44,708	42,422
Net Position, End of Year	\$ 144,545	\$ 157,462	\$ 50,123	\$ 44,708

Note: (1) For the 2014-15 fiscal year, the adjustment to beginning net position was 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. For the 2013-14 fiscal year, the adjustment to beginning net position was due to the adoption of GASB Statement No. 65, which is a change in accounting principle that requires debt issuance costs, which were previously deferred and amortized, to be expensed when incurred.

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 for the College and its discretely presented component unit by source that were used to fund operating activities for the respective fiscal years:

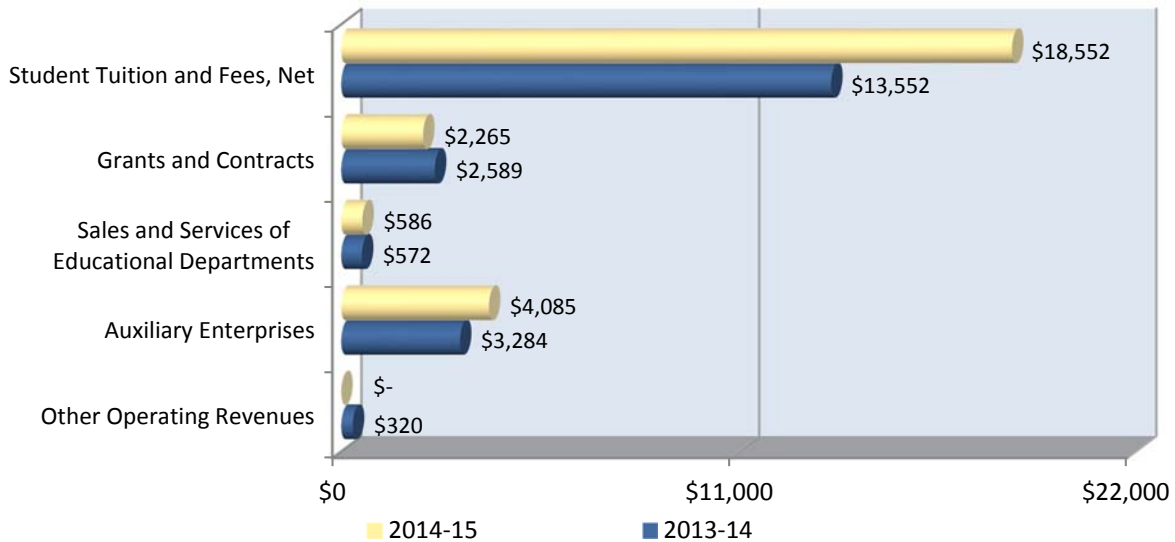
**Operating Revenues
For the Fiscal Years Ended**

(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	3-31-15	3-31-14
Student Tuition and Fees, Net	\$ 18,552	\$ 13,552	\$ -	\$ -
Grants and Contracts	2,265	2,589	5,760	1,098
Sales and Services of Educational Departments	586	572	-	-
Auxiliary Enterprises	4,085	3,284	-	-
Other Operating Revenue	-	320	26	26
Total Operating Revenues	\$ 25,488	\$ 20,317	\$ 5,786	\$ 1,124

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

Operating Revenues: College
(In Thousands)



College operating revenue increased by \$5.2 million primarily due as a result of increases in net student tuition and fees and sales and services of auxiliary enterprises. The significant decrease in scholarship allowance is due to the College changing its method of calculation of the allowance.

Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the College'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 College 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 College and its discretely presented component unit for the respective fiscal years ended:

**Operating Expenses
For the Fiscal Years Ended**

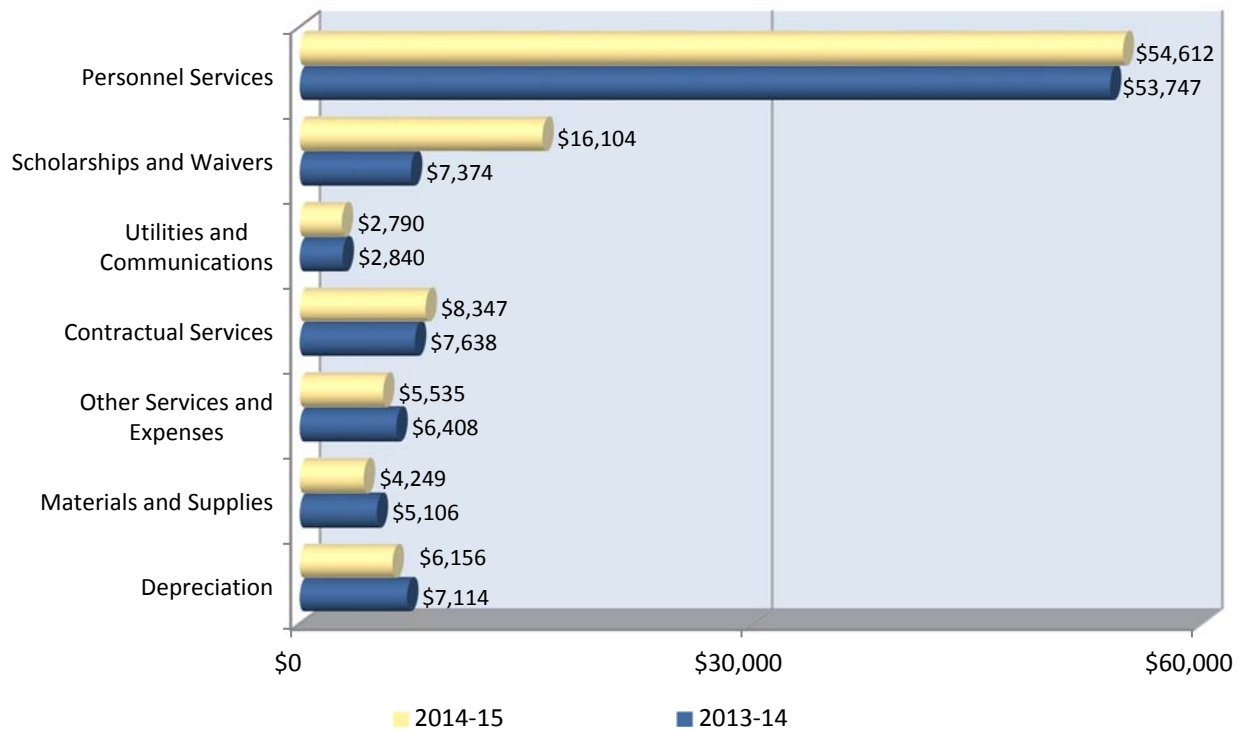
(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	3-31-15	3-31-14
Personnel Services	\$ 54,612	\$ 53,747	\$ -	\$ -
Scholarships and Waivers	16,104	7,374	1,302	1,476
Utilities and Communications	2,790	2,840	-	-
Contractual Services	8,347	7,638	774	717
Other Services and Expenses	5,535	6,408	766	1,295
Materials and Supplies	4,249	5,106	-	-
Depreciation	6,156	7,114	-	-
Total Operating Expenses	\$ 97,793	\$ 90,227	\$ 2,842	\$ 3,488

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

Operating Expenses: College

(In Thousands)



The operating expenses for the 2014-15 fiscal year were \$97.8 million, an increase of \$7.6 million compared to the 2013-14 fiscal year. Significant changes to operating expenses were the result of the following factors:

- Personnel services (compensation and employee benefits) increased by \$0.9 million, which is attributed to a one percent salary increase, and increases in employee benefit rates.

- Scholarships and waivers increased by \$8.7 million due to a decrease of \$6.2 million, or 28 percent in student tuition and fees scholarship allowance which was caused by a decrease in enrollment and student loan borrowing.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, 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 College's nonoperating revenues and expenses for the 2014-15 and 2013-14 fiscal years:

Nonoperating Revenues (Expenses): College		
(In Thousands)		
	2014-15	2013-14
State Noncapital Appropriations	\$ 35,610	\$ 34,345
Federal and State Student Financial Aid	27,040	26,962
Gifts and Grants	5,830	3,535
Investment Income	550	529
Other Nonoperating Revenues	160	21
Interest on Capital Asset-Related Debt	(1,536)	(1,608)
Other Nonoperating Expenses	(1,953)	(135)
Net Nonoperating Revenues	\$ 65,701	\$ 63,649

Changes in nonoperating revenues were primarily due to an increase in State noncapital appropriations of \$1.3 million, or 3.7 percent. Gifts and grants increased \$2.3 million, or 64.9 percent, as a result of an increase in the number of Quick Response Training (QRT) grants run through the College. Other nonoperating expenses increased \$1.8 million, or 134.7 percent due to the payments for the QRTs.

Other Revenues

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

Other Revenues: College		
(In Thousands)		
	2014-15	2013-14
State Capital Appropriations	\$ 7,537	\$ 4,864
Capital Grants, Contracts, Gifts, and Fees	3,678	3,231
Other Revenues	549	575
Total	\$ 11,764	\$ 8,670

State capital appropriations increased by \$2.7 million primarily due to an increase in the State's Public Education Capital Outlay funding and is restricted to approved construction projects, such as the Leonhardt Hall renovation.

The Statement of Cash Flows

The statement of cash flows provides information about the College's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the College'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 College. 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 the College's cash flows for the 2014-15 and 2013-14 fiscal years:

	<u>2014-15</u>	<u>2013-14</u>
Cash Provided (Used) by:		
Operating Activities	\$ (66,067)	\$ (62,516)
Noncapital Financing Activities	68,194	65,378
Capital and Related Financing Activities	817	(1,238)
Investing Activities	<u>(5)</u>	<u>578</u>
Net Increase in Cash and Cash Equivalents	2,939	2,202
Cash and Cash Equivalents, Beginning of Year	<u>22,366</u>	<u>20,164</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 25,305</u></u>	<u><u>\$ 22,366</u></u>

Major sources of funds came from State noncapital appropriations (\$35.6 million), Federal and State student financial aid (\$27.6 million), net student tuition and fees (\$19.9 million), and Federal Direct Student Loan program receipts (\$14.8 million). Major uses of funds were for payments to employees (\$44.2 million), payments to suppliers of goods and services (\$18.2 million), payments for scholarships (\$16.1 million), and disbursements to students for Federal Direct Student Loans (\$14.8 million).

The overall increase in cash was \$2.9 million, or 13.1 percent over the previous fiscal year.

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

At June 30, 2015, the College had \$233.9 million in capital assets, less accumulated depreciation of \$83 million, for net capital assets of \$150.9 million. Depreciation charges for the current fiscal year totaled \$6.2 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30: College

(In Thousands)

<u>Capital Assets</u>	<u>2015</u>	<u>2014</u>
Land	\$ 3,080	\$ 3,491
Art Collections	503	503
Construction in Progress	2,814	1,865
Buildings	204,065	203,441
Other Structures and Improvements	13,613	13,687
Furniture, Machinery, and Equipment	9,866	9,193
Total Capital Assets	233,941	232,180
Less, Accumulated Depreciation	(83,010)	(77,699)
Capital Assets, Net	\$ 150,931	\$ 154,481

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

Capital Expenses and Commitments

Construction commitments through June 30, 2015, included the following projects: Lee Campus Student Activity Center for \$6 million, Lee Campus building G HVAC and roof for \$876 thousand, Lee Campus building H renovation and remodeling for \$4.6 million, Lee Campus building K roof, window, and lighting project for \$585 thousand, and minor projects on the Lee Campus for \$215 thousand. The College's construction commitments at June 30, 2015, are as follows:

	<u>Amount</u> <u>(In Thousands)</u>
Total Committed	\$ 12,296
Completed to Date	<u>(2,814)</u>
Balance Committed	<u>\$ 9,482</u>

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

Debt Administration

As of June 30, 2015, the College had \$39.1 million in outstanding bonds payable composed of Florida Department of Education Capital Improvement Revenue Bonds (Revenue Bonds) issued on behalf of the College with outstanding balances totaling \$12.9 million and Student Housing Qualified Bonds issued by the Florida SouthWestern State College Financing Corporation with outstanding balance of \$24.6 million. The Revenue Bonds mature serially and are secured by the College's capital improvement fees. The College also holds State Board of Education Capital Outlay Bonds with outstanding balances of \$1.6 million issued on behalf of the College. These bonds mature serially and are secured by the College's portion of the State assessed motor vehicle license tax. Proceeds from these bonds are to be used to construct and renovate College facilities. More detailed information about the College's long-term liabilities is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the 2015-16 fiscal year. In addition, future funding will be tied to performance requirements, and it is anticipated that overall enrollment will be flat.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A and financial statements and notes thereto, or requests for additional financial information should be addressed to the Dr. Gina Doeble, CPA, Vice President of Administrative Services, Florida SouthWestern State College, 8099 College Parkway, Fort Myers, Florida 33919.

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BASIC FINANCIAL STATEMENTS

**Florida SouthWestern State College
A Component Unit of the State of Florida
Statement of Net Position**

June 30, 2015

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 7,059,790	\$ 226,215
Restricted Cash and Cash Equivalents	2,779,387	6,622
Investments	6,225,190	998,024
Restricted Investments	4,581,810	-
Accounts Receivable, Net	3,180,458	5,071,900
Notes Receivable, Net	170,474	-
Due from Other Governmental Agencies	10,298,164	-
Prepaid Expenses	1,331,964	5,205
Total Current Assets	35,627,237	6,307,966
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	15,466,315	-
Investments	5,988,142	2,317,488
Restricted Investments	1,902,539	41,374,824
Depreciable Capital Assets, Net	144,533,676	-
Nondepreciable Capital Assets	6,396,981	-
Other Assets	-	4,172,238
Total Noncurrent Assets	174,287,653	47,864,550
TOTAL ASSETS	209,914,890	54,172,516
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	4,084,477	-
Accumulated Decrease in Fair Value of Hedging Derivatives	1,228,135	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,312,612	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,725,404	179,838
Accrued Interest Payable	27,937	-
Salary and Payroll Taxes Payable	1,497,319	-
Retainage Payable	17,995	-
Due to Other Governmental Agencies	3,589	-
Unearned Revenue	406,605	2,769,161
Deposits Held for Others	158,380	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	1,404,936	-
Notes Payable	-	1,100,000
Special Termination Benefits Payable	81,249	-
Compensated Absences Payable	160,650	-
Net Pension Liability	318,365	-
Total Current Liabilities	6,802,429	4,048,999

**Florida SouthWestern State College
A Component Unit of the State of Florida
Statement of Net Position (Continued)**

June 30, 2015

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	37,689,172	-
Derivative Instrument Liability	1,268,215	-
Special Termination Benefits Payable	106,838	-
Compensated Absences Payable	3,796,570	-
Other Postemployment Benefits Payable	214,460	-
Net Pension Liability	13,428,801	-
Total Noncurrent Liabilities	56,504,056	-
TOTAL LIABILITIES	63,306,485	4,048,999
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	7,376,303	-
NET POSITION		
Net Investment in Capital Assets	115,707,599	-
Restricted:		
Nonexpendable:		
Endowment	731,365	18,817,683
Expendable:		
Grants and Loans	2,177,445	-
Scholarships	1,181,195	27,871,457
Capital Projects	26,176,088	-
Debt Service	1,810,588	-
Unrestricted	(3,239,566)	3,434,377
TOTAL NET POSITION	\$ 144,544,714	\$ 50,123,517

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

Florida SouthWestern State College
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

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$15,844,105	\$ 18,551,715	\$ -
Federal Grants and Contracts	1,379,952	-
Nongovernmental Grants and Contracts	884,451	5,760,506
Sales and Services of Educational Departments	586,341	-
Auxiliary Enterprises	4,085,159	-
Other Operating Revenues	-	26,000
Total Operating Revenues	25,487,618	5,786,506
EXPENSES		
Operating Expenses:		
Personnel Services	54,611,789	-
Scholarships and Waivers	16,104,077	1,301,906
Utilities and Communications	2,790,480	-
Contractual Services	8,347,041	773,900
Other Services and Expenses	5,534,645	766,360
Materials and Supplies	4,249,388	-
Depreciation	6,155,539	-
Total Operating Expenses	97,792,959	2,842,166
Operating Income (Loss)	(72,305,341)	2,944,340
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	35,609,665	-
Federal and State Student Financial Aid	27,039,769	-
Gifts and Grants	5,829,944	-
Investment Income	549,971	1,865,701
Other Nonoperating Revenues	160,475	-
Interest on Capital Asset-Related Debt	(1,535,903)	-
Other Nonoperating Expenses	(1,952,905)	-
Net Nonoperating Revenues	65,701,016	1,865,701
Income (Loss) Before Other Revenues	(6,604,325)	4,810,041
State Capital Appropriations	7,536,811	-
Capital Grants, Contracts, Gifts, and Fees	3,677,679	-
Other Revenues	549,380	-
Increases in Permanent Endowment	-	605,317
Total Other Revenues	11,763,870	605,317
Increase in Net Position	5,159,545	5,415,358
Net Position, Beginning of Year	157,461,633	44,708,159
Adjustment to Beginning Net Position	(18,076,464)	-
Net Position, Beginning of Year, as Restated	139,385,169	44,708,159
Net Position, End of Year	\$ 144,544,714	\$ 50,123,517

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

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**Florida SouthWestern State College
A Component Unit of the State of Florida
Statement of Cash Flows**

For the Fiscal Year Ended June 30, 2015

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 19,850,419
Grants and Contracts	2,238,774
Payments to Suppliers	(18,237,764)
Payments for Utilities and Communications	(2,790,480)
Payments to Employees	(44,195,637)
Payments for Employee Benefits	(11,178,966)
Payments for Scholarships	(16,104,077)
Loans Issued to Students	(129,896)
Collection on Loans to Students	120,012
Auxiliary Enterprises	3,779,285
Sales and Service of Educational Departments	586,341
Other Payments	(5,208)
	Net Cash Used by Operating Activities
	(66,067,197)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	35,609,665
Federal and State Student Financial Aid	27,588,955
Federal Direct Loan Program Receipts	14,770,385
Federal Direct Loan Program Disbursements	(14,770,385)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	5,834,061
Other Nonoperating Disbursements	(839,127)
	Net Cash Provided by Noncapital Financing Activities
	68,193,554
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	3,504,312
Capital Grants and Gifts	3,355,947
Proceeds from Sale of Capital Assets	1,061,551
Purchases of Capital Assets	(4,209,138)
Principal Paid on Capital Debt	(1,347,600)
Interest Paid on Capital Debt	(1,547,349)
	Net Cash Provided by Capital and Related Financing Activities
	817,723
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	6,931,700
Purchases of Investments	(7,520,664)
Investment Income	583,759
	Net Cash Used by Investing Activities
	(5,205)
	Net Increase in Cash and Cash Equivalents
	2,938,875
Cash and Cash Equivalents, Beginning of Year	22,366,617
	Cash and Cash Equivalents, End of Year
	25,305,492

**Florida SouthWestern State College
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)**

For the Fiscal Year Ended June 30, 2015

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (72,305,341)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	6,155,539
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Accounts Receivable, Net	1,344,620
Notes Receivable, Net	11,410
Due from Other Governmental Agencies	(55,428)
Prepaid Expenses	(187,661)
Salary and Payroll Taxes Payable	264,364
Accounts Payable	(42,002)
Unearned Revenue	(156,649)
Deposits Held for Others	(225)
Special Termination Benefits Payable	(91,408)
Compensated Absences Payable	(2,164)
Other Postemployment Benefits Payable	35,220
Net Pension Liability	(6,207,394)
Deferred Outflows of Resources Related to Pensions	(2,206,381)
Deferred Inflows of Resources Related to Pensions	7,376,303
NET CASH USED BY OPERATING ACTIVITIES	\$ (66,067,197)

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

Unrealized losses on investments were recognized as a reduction to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows. \$ (33,788)

Losses from the disposal of capital assets were recognized as a decrease to other nonoperating revenues on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows. \$ (422,725)

The State Board of Education (SBE) issued \$267,000 in SBE Capital Outlay Bonds, Series 2014A, to refund \$90,000 SBE Capital Outlay Bonds, Series 2004A and \$205,000 in SBE 2005A, Refunding Bonds. The new debt and defeased old debt were recorded as an increase and decrease, respectively, to bonds payable on the statement of net position; however, because the proceeds of the new debt were immediately placed into an irrevocable trust for defeasance of debt of the old debt, the transactions, including the debt service saving of \$7,000 are not cash transactions for the statement of cash flows. \$ 7,000

The State Board of Education (SBE) issued \$148,000 in SBE Capital Outlay Bonds, Series 2014B to refund \$125,000 and \$30,000 in SBE Capital Outlay Bonds, Series 2005A and 2005B, respectively. The new debt and the refunded debt were recorded as an increase and decrease, respectively, to bonds payable on the statement of net position; however, the transactions, including the debt service saving of \$28,000, are not cash transactions for the statement of cash flows. \$ 28,000

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The governing body of Florida SouthWestern State College,¹ a component unit of the State of Florida, is the College Board of Trustees. The Board of Trustees constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by law and State Board of Education rules. However, the Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State laws and State Board of Education rules. Geographic boundaries of the College correspond with those of Charlotte, Collier, Glades, Hendry, and Lee Counties.

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 Board of Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the Board of Trustees are such that exclusion would cause the College's financial statements to be misleading. Based on the application of these criteria, the College 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.

Blended Component Unit. Based on the application of the criteria for determining component units, the Florida SouthWestern State College Financing Corporation (Financing Corporation), a legally separate entity, is included within the College's reporting entity as a blended component unit. The Financing Corporation is a not-for-profit Florida corporation under the provisions of Chapter 617, Florida Statutes, and is also a direct-support organization, as defined in Section 1004.70, Florida Statutes. The Financing Corporation is managed independently, outside the College's budgeting process, and its powers generally are vested in a governing board pursuant to various State Statutes. The Financing Corporation was established to finance and/or operate parking, student housing, and other capital projects for the exclusive benefit of the College and its students. Due to the substantial economic relationship between the Financing Corporation and the College, the financial activities of the Financing Corporation are included in the College's financial statements. The financial data reported on the accompanying financial statements was derived from the Financing Corporation's audited financial statements for the fiscal year ended March 31, 2015.

The Financing Corporation is audited by other auditors, pursuant to Section 1004.70(6), Florida Statutes. The Financing Corporation's audited financial statements are available to the public at the College's administrative offices. Additionally, condensed financial statements for the Financing Corporation are shown in a subsequent note.

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the Florida SouthWestern State College Foundation, Inc. (Foundation), a legally

¹ The College's Board of Trustees approved the name change from Edison State College to Florida SouthWestern State College on July 1, 2014, pursuant to Section 1001.60(2)(b), Florida Statutes.

separate entity, is included within the College's reporting entity as a discretely presented component unit and is governed by a separate board.

The Foundation is also a direct-support organization, as defined in Section 1004.70, Florida Statutes, and although legally separate from the College, is financially accountable to the College. The Foundation is managed independently, outside the College's budgeting process, and its powers generally are vested in a governing board pursuant to various State statutes. The Foundation receives, holds, invests, and administers property, and makes expenses to or for the benefit of the College.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College's administrative offices. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended March 31, 2015.

Basis of Presentation. The College'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 College with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public colleges various reporting options. The College 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, 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 College'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 College follows GASB standards of accounting and financial reporting.

The College's component units use the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, 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 College's principal operating activity is instruction. Operating revenues and expenses generally include all fiscal transactions directly related to instruction as well as administration, academic support, student services, physical plant operations, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), 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 College's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the College computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party aid.

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

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, cash invested overnight in a money market mutual fund, and cash placed with the State Treasury Special Purpose Investment Account (SPIA) and State Board of Administration (SBA) Florida PRIME investment pools. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less to be cash equivalents. Under this definition, the College considers amounts invested in the State Treasury SPIA and SBA Florida PRIME investment pools to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2015, the College reported as cash equivalents at fair value \$43,029 in the State Treasury 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 College 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 SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2015, the College reported as cash equivalents \$158,798 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 34 days as of June 30, 2015. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

Capital Assets. College capital assets consist of land; art collections; construction in progress; buildings; other structures and improvements; and furniture, machinery, and equipment. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Vehicles, Office Machines, and Educational Equipment – 5 years
 - Furniture – 7 years

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, derivative instrument liability, special termination benefits payable, compensated absences payable, other postemployment benefits payable, and net pension liability that are not scheduled to be paid within the next fiscal year.

Pensions. For purposes of measuring the net pension liability, 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. Investments are reported at fair value.

2. Reporting Change

The College 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 College 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 College, was decreased by \$18,076,464 due to the adoption of a new GASB Pronouncement, Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 requires the College 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. Deficit Net Position in Individual Funds

The College reported an unrestricted net position, which included a deficit in the current funds unrestricted net position as shown below. This deficit can be attributed to the full recognition of long-term liabilities (i.e., compensated absences payable, other postemployment benefits payable, and net pension liabilities) in the current unrestricted funds.

	<u>Net Position</u>
College:	
Current Funds - Unrestricted	\$ (9,033,501)
Auxiliary Funds	<u>1,295,703</u>
Total College Net Position	(7,737,798)
Blended Component Unit - Financing Corporation	<u>4,498,232</u>
Total	<u><u>\$ (3,239,566)</u></u>

5. Investments

The College's Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the State Board of Administration (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 by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; and other investments approved by the College's Board of Trustees as authorized by law. State Board of Education (SBE)

Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments.

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 College's investments at June 30, 2015, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Debt Service Accounts	\$ 1,175,738
Short-Term Investments	662,524
Obligations of United States Government	
Agencies and Instrumentalities	10,293,689
Collateralized Mortgage Obligations	375,338
State and Municipal Bonds	899,556
Foreign Obligations	748,085
Corporate Bonds	3,815,950
Mutual Funds	726,801
Total College Investments	\$ 18,697,681

State Board of Administration Debt Service Accounts

The College reported investments totaling \$1,175,738 at June 30, 2015, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk and credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Other Investments

The College's other investments at June 30, 2015, totaling \$16,795,142, consisted of Obligations of United States Agencies and Instrumentalities of \$10,293,689, foreign obligations of \$748,085, State and Municipal bonds of \$899,556, corporate bonds of \$3,815,950, short-term investments of \$662,524, and collateralized mortgage obligations of \$375,338 reported at fair value. The College also had investments at June 30, 2015, totaling \$726,801 that consisted of mutual funds reported at fair value and are held as part of its endowments.

The following risks apply to these investments:

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's investment policy limits interest rate risk by attempting to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of

nonoperating funds (“core funds”) shall have a term appropriate to the need for funds but should not exceed 3 years.

The College utilizes “effective duration” as a measurement of interest rate risk for Federal agency obligations of a maximum duration of 3 years. The College’s investments in mutual funds at June 30, 2015, do not have reported maturities.

As a means of managing its exposure to fair-value losses arising from increasing interest rates, the Financing Corporation has established a target duration of its fixed-income portfolio up to 3 years. The Obligations of United States Agencies and Instrumentalities, foreign obligations, State and Municipal bonds, and corporate bonds have maturities of less than 1 year up to 3 years.

<u>Investment Maturities</u>	<u>Percent of Portfolio</u>
Less than 1 year	12.10
1-3 years	87.90
Total	<u>100.00</u>

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College’s investment policy does not address credit risk. The College’s investments in Federal agency obligations at June 30, 2015, were rated AA+ and Aaa by Standard & Poor’s and Moody’s, respectively, at June 30, 2015. The College’s investments in mutual funds at June 30, 2015 were unrated.

It is the Financing Corporation’s policy that the fixed income portfolio must be rated at A or higher for corporate bond investments and AA or higher for all other investments by any of the three rating services.

<u>Rating</u>	<u>Percent of Portfolio</u>
Aaa	56.40
Aa	23.10
A	20.50
Total	<u>100.00</u>

Custodial Credit Risk. Custodial risk is the risk that, in the event of failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College’s investment policy pursuant to Section 218.415(18), Florida Statutes, requires securities, with the exception of certificates of deposits, be held with a third party custodian; and all securities purchased by, and all collateral obtained by the College should be properly designated as an asset of the College. The securities must be held in an account separate and apart from the assets of the financial institution. A third-party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and is doing

business in the State of Florida. Certificates of deposit will be placed in the provider's safekeeping department for the term of the deposit.

As of June 30, 2015, the College's Federal agency obligations were held with a third-party custodian as required by the College's investment policy.

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

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributable to the magnitude of the College's investments in a single issuer. The College's investment policy has established asset allocation and issuer limits on the following investments which are designed to reduce concentration of credit risk of the College's investment portfolio. A maximum of 100 percent of available funds may be invested in intergovernmental pools, money market mutual funds, in United States government securities, and in United States government agencies; 75 percent of available funds may be invested in Federal agencies and instrumentalities; 50 percent of available funds may be invested in corporate bonds, non-negotiable certificates of deposit and savings accounts, and commercial paper; 40 percent of available funds may be invested in repurchase agreements; 25 percent of available funds may be invested in supranationals, municipal bonds, agency mortgage-backed securities, asset-backed securities, and Florida local government surplus funds trust funds (Florida PRIME); and 20 percent of available funds may be invested in fixed-income mutual funds.

The Financing Corporation policy limits investments to United States Treasury Securities, Obligations of United States Agencies and Instrumentalities, taxable municipal bonds, and corporate bonds. The maximum exposure to A and AA rated bonds is 25 percent and 25 percent, respectively, of the portfolio's market value. United States Treasury Securities and obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not have purchase limitations.

Management of the Financing Corporation believes the concentration of credit risk with respect to its investments is mitigated by investing through the use of a national investment manager in United States Treasury Securities, Obligations of United States Agencies and Instrumentalities, highly rated corporate bonds, municipal bonds, and widely traded mutual funds.

Component Unit Investments

Investments held by the Florida SouthWestern State College Foundation, Inc., at March 31, 2015, consisted of money market and mutual funds and are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
Money Market Funds	\$ 2,956
Mutual Funds:	
Hedge	8,780,756
Equities (1)	20,544,542
Bonds	15,362,082
Total Component Unit Investments	\$ 44,690,336

Note: (1) Investment risk disclosures are not required for equity mutual funds.

Interest Rate Risk. As a means of managing its exposure to fair-value losses arising from increasing interest rates, the Foundation has established a target for the duration of its fixed-income portfolio to be between 3 and 7 years.

As of March 31, 2015, the maturities of the Foundation's mutual funds-bonds investments of \$15,362,082 by percentage of its portfolio, are presented in the following table:

<u>Investment Maturities</u>	<u>Percentage of Portfolio</u>
Less than 1 year	16.80
1 - 3 years	27.50
4 - 5 years	19.30
5 - 7 years	12.20
7 - 9 years	8.50
9 or more years	15.70
Total	100.00

The Foundation's investments in money market and fixed-income mutual funds are held as a portion of large mutual funds and are not individual securities held by the Foundation. Therefore, it is not possible to disclose maturities by actual security held. Instead, this disclosure is provided for the fixed-income mutual funds in total.

Credit Risk. It is the Foundation's policy that the investment grade portion of the fixed-income portfolio must be rated at the four highest ratings (i.e., single "A" or higher) or a comparable rating by Moody's or Standard & Poor's rating services, respectively. The high-yield portion of the fixed-income portfolio will consist of below investment grade securities. There is no bottom line on the ratings of the high-yield portfolio.

The Foundation's fixed-income investments at March 31, 2015, were rated as follows:

<u>Rating</u>	<u>Percentage of Portfolio</u>
Aaa	65.46
Aa	3.86
A	11.66
Baa	14.22
Ba and below	3.86
Not Rated	0.94
Total	100.00

The Foundation's investments in money market and fixed-income mutual funds are held as a portion of large mutual funds and are not individual securities held by the Foundation. Therefore, it is not possible to disclose credit ratings by actual security held. Instead, this disclosure is provided for the fixed-income mutual funds in total. Obligations of the United States government or obligations explicitly guaranteed by the United States government are not considered to have credit risk and do not have purchase limitations.

Custodial Credit Risk. The Foundation utilizes the services of investment managers. The investments held by these managers are uninsured and unregistered, with the securities held by the counterparty's trust department of agent in the Foundation's name. There were no losses during the fiscal year due to default by counterparties to investment transactions.

Concentration of Credit Risk. The Foundation's policies state that the non-United States investment grade portion of the fixed-income portfolio must consist of securities of non-United States issuers located in at least three non-United States countries. The Foundation's policies do not specifically limit the debt of securities maturity dates.

The Foundation's investment policy prohibits the concentration of more than 5 percent of its investments in a single specific investment vehicle. Likewise, the Foundation cannot hold more than 5 percent of any specific issuer.

6. Accounts Receivable

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$801,682 allowance for doubtful accounts.

7. Notes Receivable

Notes receivable represent student loans made under the short-term loan program of \$191,526. Notes receivable are reported net of a \$21,052 allowance for doubtful notes.

8. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of \$7,341,015 of Public Education Capital Outlay allocations due from the State for construction and renovation of College facilities, and \$1,838,459 due from the Florida Prepaid College Fund.

9. 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	\$ 3,491,190	\$ -	\$ 411,360	\$ 3,079,830
Art Collections	503,093	-	-	503,093
Construction in Progress	1,865,401	3,135,123	2,186,466	2,814,058
Total Nondepreciable Capital Assets	\$ 5,859,684	\$ 3,135,123	\$ 2,597,826	\$ 6,396,981
Depreciable Capital Assets:				
Buildings	\$ 203,441,253	\$ 2,142,725	\$ 1,518,910	204,065,068
Other Structures and Improvements	13,686,476	20,000	93,755	13,612,721
Furniture, Machinery, and Equipment	9,193,203	1,067,033	394,312	9,865,924
Total Depreciable Capital Assets	226,320,932	3,229,758	2,006,977	227,543,713
Less, Accumulated Depreciation:				
Buildings	60,095,481	4,100,252	439,744	63,755,989
Other Structures and Improvements	10,853,705	1,110,451	18,751	11,945,405
Furniture, Machinery, and Equipment	6,750,197	944,836	386,390	7,308,643
Total Accumulated Depreciation	77,699,383	6,155,539	844,885	83,010,037
Total Depreciable Capital Assets, Net	\$ 148,621,549	\$ (2,925,781)	\$ 1,162,092	\$ 144,533,676

10. Unearned Revenue

Unearned revenue at June 30, 2015, includes student dorm fees of \$406,605 paid to the Financing Corporation that was received prior to fiscal year-end related to subsequent accounting periods.

11. Unearned Revenue – Component Unit

The Foundation received contributions and grants with either time or eligibility requirements. The amounts are available when the restrictions have expired or eligibility requirements have been met. As of March 31, 2015, the following amounts were reported as unearned revenue:

<u>Description</u>	<u>Amount</u>
Pooled Gift Annuity	\$ 469,161
Life Estate Trust	2,300,000
Total Unearned Revenue	\$ 2,769,161

12. Deferred Outflow of Resources – Component Unit

The College's blended component unit, the Financing Corporation, entered into an interest rate swap agreement in connection with its tax-exempt loan to manage the risk of rising interest rates on its variable rated-based debt. The deferred outflow of resources includes the effect of deferring accumulated decreases in fair value of a hedging derivative related to this interest rate swap agreement. The Bonds Payable section of Note 13 below includes further discussion of the interest rate swap agreement.

13. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2015, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 40,476,708	\$ 415,000	\$ 1,797,600	\$ 39,094,108	\$ 1,404,936
Derivative Instrument Liability	1,538,254	-	270,039	1,268,215	-
Special Termination Benefits Payable	279,495	34,318	125,726	188,087	81,249
Compensated Absences Payable	3,959,384	230,466	232,630	3,957,220	160,650
Other Postemployment Benefits Payable	179,240	115,486	80,266	214,460	-
Net Pension Liability (1)	19,954,560	3,047,002	9,254,396	13,747,166	318,365
Total Long-Term Liabilities	\$ 66,387,641	\$ 3,842,272	\$ 11,760,657	\$ 58,469,256	\$ 1,965,200

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

Bonds Payable – College. Various bonds were issued to finance capital outlay projects of the College. The following is a description of the bonded debt issues:

- **SBE Capital Outlay Bonds.** The SBE issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College’s portion of the State-assessed motor vehicle license tax and by the State’s full faith and credit. The SBE and the SBA administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements.
- **Capital Improvement Revenue Bonds, Series 2010A.** These bonds are authorized by Article VII, Section 11(d) of the Florida Constitution; Sections 215.57 through 215.83 and Section 1009.23, Florida Statutes; and other applicable provisions of law. Principal and interest on these bonds are secured by and payable solely from a first lien pledge of the capital improvement fees collected pursuant to Section 1009.23(11), Florida Statutes, by the Series 2010A participating colleges on a parity with any additional bonds issued subsequent to the issuance of the Series 2010A bonds. The Series 2010A bonds constitute the first series of bonds to be issued pursuant to a Master Authorizing Resolution. Upon the issuance of additional bonds, all bonds will share a parity first lien on the pledged revenues of all colleges participating in any series of bonds then outstanding. The Series 2010A bonds will share the lien of such additional bonds on the Series 2010A pledged revenues and on the revenues pledged by the colleges participating in such additional bonds. The bonds were issued for new construction and renovation and remodeling of educational facilities.

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds:			
Series 2008A	\$ 1,195,000	4.25 - 5.0	2028
Series 2014A, Refunding	260,000	3.0 - 5.0	2025
Series 2014B, Refunding	148,000	2.0 - 5.0	2020
Florida Department of Education Capital Improvement Revenue Bonds:			
Series 2010A	<u>12,940,000</u>	3.0 - 4.375	2030
Total	<u>\$ 14,543,000</u>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2015, are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	SBE Capital Outlay Bonds and Capital Improvement Revenue Bonds		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 817,000	\$ 600,027	\$ 1,417,027
2017	788,000	572,002	1,360,002
2018	792,000	539,523	1,331,523
2019	820,000	506,872	1,326,872
2020	857,000	473,123	1,330,123
2021-2025	4,884,000	1,804,937	6,688,937
2026-2030	5,585,000	720,519	6,305,519
Total	\$ 14,543,000	\$ 5,217,003	\$ 19,760,003

Bonds Payable – Financing Corporation. On December 1, 2010, the Financing Corporation entered into a Financing Agreement with the Lee County Development Authority to issue a \$26,300,000 Industrial Development Revenue Bond (Series 2010) for the construction of a 405-bed dormitory. On December 21, 2010, the Corporation closed on the bond purchased by Branch Banking and Trust Company as a tax-exempt Bank Qualified Loan (BQ). The BQ provides for the repayment of principal and related interest through December 1, 2040. The BQ will bear interest at a rate computed as the sum of (a) 68 percent of 1-month London Interbank Offered Rate (LIBOR) and (b) 65 percent of 1.85 percent per annum, as adjusted monthly with changes in one-month LIBOR. The rate as of March 31, 2015, was 1.322 percent.

The following is a schedule of future debt service requirements for the BQ:

<u>Fiscal Year</u> <u>Ending March 31</u>	LCDA Industrial Development Revenue Bond		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 587,936	\$ 917,482	\$ 1,505,418
2017	612,539	898,001	1,510,540
2018	635,597	872,704	1,508,301
2019	659,517	848,997	1,508,514
2020	682,134	824,397	1,506,531
2021-2025	3,825,634	3,723,925	7,549,559
2026-2030	4,602,227	2,952,187	7,554,414
2031-2035	5,536,495	2,026,395	7,562,890
2036-2040	6,660,322	912,637	7,572,959
2041	748,707	29,783	778,490
Total	\$ 24,551,108	\$ 14,006,508	\$ 38,557,616

Tenant revenues collected are pledged first to be used for debt service. The total amount of rental revenue recorded during the year ended March 31, 2015, was \$2,584,599.

The Financing Corporation was required to deposit into a separate account an amount to be used for repayment of interest on the Series 2010A bonds through the construction period. The amount required is recognized in the financial statements as restricted cash. At March 31, 2015, there was \$1,770,976 in restricted cash available for future debt service requirements.

Defeased Debt – College. On December 10, 2013, the SBE issued \$24,555,000 of the SBE Capital Outlay Bonds, Series 2014A. The College’s portion of the bonds, \$267,000 was used to refund \$90,000 and \$205,000 of outstanding SBE Capital Outlay Bonds, Series 2004A and 2005A, Refunding, respectively. The proceeds of the bond issue were deposited in a trust fund with the SBA to provide for all future debt service payments on the bonds. The assets with the SBA and the liability for the refunded bonds are not included on the College’s statement of net position. As a result of the refunding, the College had a debt service savings of \$28,000 and obtained an economic gain of \$20,238.

Refunded Debt – College. On December 2, 2014, the SBE issued \$129,880,000 of the SBE Capital Outlay Bonds, Series 2014B. The College’s portion of the bonds, \$148,000 was used to call the remaining debt of the College’s portion of the SBE Capital Outlay Bonds, Series 2005A and 2005B, totaling \$125,000 and \$30,000, respectively. The SBE Capital Outlay Bonds, Series 2005A and 2005B were called on January 1, 2015. As a result of the refunding, the College had a debt service savings of \$7,000 and obtained an economic gain of \$3,559.

Interest Rate Swap Agreement – Financing Corporation. On December 23, 2010, the Financing Corporation, as the counterparty, entered into an interest rate swap agreement (Swap) with Branch Bank and Trust Company for the purpose of hedging its variable interest rate risk on the tax-exempt BQ loan. The Swap provides that the Financing Corporation pay interest as an annual fixed rate of 3.66 percent effective July 1, 2012, and terminating December 17, 2017. The Swap has been determined to be an effective hedge. As such, the change in fair value is reported as a deferred outflow, a noncurrent asset reported on the statement of net position. The fair value balances and notional amounts of derivative instruments for the fiscal year then ended March 31, 2015, as reported in the financial statements are presented below:

Interest Rate Swap	Changes in Fair Value		Fair Value at March 31, 2015		Notional Amount
	Classification	Amount	Classification	Amount	
Cash Flow Hedges:					
Pay-Fixed Interest Rate Swap	Deferred Outflow of Resources	\$ 288,428	Derivative Instrument Interest Rate Swap	\$ (1,268,215)	\$ 24,910,418

Interest Rate Risk. On its only hedge, a pay-fixed and receivable variable interest rate swap agreement, as LIBOR decreases, the Financing Corporation’s net payment on the Swap increases.

Termination Risk. The Financing Corporation or its counterparty may terminate the Swap if the other party fails to perform under the terms of the contract. If at the time of termination, a hedging derivative instrument is in a liability position, the College would be liable to the counterparty for a payment equal to the liability.

Rollover Risk. The Financing Corporation is exposed to rollover risk on this hedging instrument as it is a debt hedge that matures or may be terminated prior to the maturity of the hedged debt. When this instrument terminates, the Financing Corporation will be re-exposed to the risks being hedged by the instrument.

Special Termination Benefits Payable. On November 16, 1989, the Board approved a Retirement Incentive Program (Program) that established certain eligibility guidelines for employees to receive

benefits under this Program. For qualifying employees, the Program provides payment of 50 percent of the cost of hospitalization and life insurance coverage for a period of 36 calendar months after the effective date of separation; payment for 50 percent of accumulated sick leave for the first 10 years of creditable service, plus an additional 2.5 percent of accumulated sick leave for each year of creditable service beyond 10 years to a maximum of 20 additional years; and a one-time only salary bonus. The College reported a special termination benefits payable for seven employees of \$188,087 at June 30, 2015, of which \$81,249 represents the current portion.

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College 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 College 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 College's share of the Florida Retirement System and FICA contributions, totaled \$3,957,220. The current portion of the compensated absences liability, \$160,650, is the amount expected to be paid in the coming fiscal year, and represents eligible payments for unused sick leave on behalf of regular retirees and Deferred Retirement Optional Plan Program participants to a deferred compensation annuity program.

Other Postemployment Benefits Payable. The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for other postemployment benefits provided by the Florida College System Risk Management Consortium (Consortium).

Plan Description. The College contributes to an agent multiple-employer defined benefit plan (Plan) administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College 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. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the Plan and the Plan 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 the Board of Trustees has established and can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2014-15 fiscal year, 62 retirees received postemployment healthcare benefits, and 82 retirees received postemployment life insurance benefits. The College provided required contributions of \$80,266 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for

claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$388,402, which represents 1.1 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The College'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 College's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the College's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 79,378
Amortization of Unfunded Actuarial Accrued Liability	<u>34,913</u>
Annual Required Contribution	114,291
Interest on Net OPEB Obligation	7,170
Adjustment to Annual Required Contribution	<u>(5,975)</u>
Annual OPEB Cost (Expense)	115,486
Contribution Toward the OPEB Cost	<u>(80,266)</u>
Increase in Net OPEB Obligation	35,220
Net OPEB Obligation, Beginning of Year	<u>179,240</u>
Net OPEB Obligation, End of Year	<u><u>\$ 214,460</u></u>

The College'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 2 preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012-13	\$ 92,297	46.1%	\$ 135,379
2013-14	115,193	61.9%	179,240
2014-15	115,486	69.5%	214,460

Funded Status and Funding Progress. As of July 1, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$1,047,396 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,047,396 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$29,665,206 at the actuarial date of the July 1, 2013, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3.5 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 College's OPEB actuarial valuation as of July 1, 2013, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2015, and the College's 2014-15 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, an inflation rate of 3 percent per year, and an annual healthcare cost trend rate of 7.5 percent pre-Medicare and 6 percent Medicare for the 2014-15 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 3 years for pre-Medicare and 2 years for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on open basis. The remaining amortization period at June 30, 2015, was 22 years.

14. 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 of State colleges.

Essentially all regular employees of the College 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).

The College's FRS and HIS pension expense totaled \$1,202,054 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 Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

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

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 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>
Regular Class members initially enrolled before July 1, 2011	
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
Regular Class members initially enrolled on or after July 1, 2011	
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
Special Risk Regular	
Service from December 1, 1970 through September 30, 1974	2.00
Service on and after October 1, 1974	3.00
Senior Management Service Class	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
FRS, Reemployed Retiree	(2)	(2)

Notes: (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.

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

The College's contributions to the plan totaled \$1,830,437 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 College reported a liability of \$4,263,638 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 College's proportionate share of the net pension liability was based on the College's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the College's proportionate share was 0.069878863 percent, which was an increase of 0.004353169 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the College recognized pension expense of \$521,879. In addition, the College 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	\$ -	\$ 263,847
Change of assumptions	738,391	-
Net difference between projected and actual earnings on FRS pension plan investments	-	7,112,456
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	630,426	-
College FRS contributions subsequent to the measurement date	1,830,437	-
Total	<u>\$ 3,199,254</u>	<u>\$ 7,376,303</u>

The deferred outflows of resources related to pensions totaling \$1,830,437 resulting from College contributions subsequent to the measurement date, 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 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	\$ (1,569,629)
2017	(1,569,629)
2018	(1,569,629)
2019	(1,569,629)
2020	208,485
Thereafter	62,545
Total	<u>\$ (6,007,486)</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
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:

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.00%	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%
Total	<u>100.00%</u>			
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 College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the College'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:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
College's proportionate share of the net pension liability	\$ 18,236,147	\$ 4,263,638	\$ (7,358,823)

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

Payables to the Pension Plan. At June 30, 2015, the College reported a payable of \$215,284 for the outstanding amount of contributions to the pension plan required for the fiscal year ended June 30, 2015.

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, and may be amended by the Florida Legislature at any time. 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 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 College 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 College's contributions to the HIS Plan totaled \$409,093 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions. At June 30, 2015, the College reported a net pension liability of \$9,483,528 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within one year, net of the College'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 College's proportionate share of the net pension liability was based on the College's 2013-14 fiscal year contributions relative to the total

2013-14 fiscal year contributions of all participating members. At June 30, 2014, the College's proportionate share was 0.101425459 percent, which was an increase of 0.001788903 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the College recognized pension expense of \$680,175. In addition, the College reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 337,462
Net difference between projected and actual earnings on HIS pension plan investments	4,552
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	134,116
College contributions subsequent to the measurement date	409,093
Total	\$ 885,223

The deferred outflows of resources totaling \$409,093 was related to pensions resulting from College 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	\$ 77,199
2017	77,199
2018	77,199
2019	77,199
2020	76,061
Thereafter	91,273
Total	\$ 476,130

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.

While an experienced study had not been completed for the plan, the Florida Retirement System Actuarial Assumptions Conference reviewed the actuarial assumptions for the plan.

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 College’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College’s proportionate share of the net pension liability calculated using the discount rate of 4.29 percent, as well as what the College’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:

	1% Decrease (3.29%)	Current Discount Rate (4.29%)	1% Increase (5.29%)
College's proportionate share of the net pension liability	\$ 10,786,745	\$ 9,483,528	\$ 8,395,715

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

Payables to the Pension Plan. At June 30, 2015, the College reported a payable of \$2,713 for the outstanding amount of contributions to the pension plan required for the fiscal year ended June 30, 2015.

15. 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. College employees already participating in the State College 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 rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 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 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 College.

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 College's Investment Plan pension expense totaled \$795,039 for the fiscal year ended June 30, 2015.

State College System Optional Retirement Program. Section 1012.875, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible college instructors and administrators. The Program is designed to aid colleges in recruiting employees by offering more portability to employees not expected to remain in the 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 college 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 the administrative costs, for a total of 7.69 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college 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 College's contributions to the Program totaled \$143,714 and employee contributions totaled \$83,717 for the 2014-15 fiscal year.

Senior Management Service Local Annuity Program. Section 121.055(1)(b)2., Florida Statutes, and Florida Retirement System Rule 60S-1.0057, Florida Administrative Code, provide that local agency employees eligible for the FRS, Senior Management Service Class, may elect to withdraw from the FRS altogether and participate in a local annuity program. Pursuant thereto, the College established the Senior Management Service Class Local Annuity Program (Local Annuity Program). Employees in eligible positions are allowed to make an irrevocable election to participate in the Local Annuity Program, rather than the FRS.

The Local Annuity Program is defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the employee. The College contributes 14 percent of the employee's salary to the Local Annuity Program. The participants may make contributions toward the Local Annuity Program by way of salary reduction or by deduction of a percentage of the employee's gross compensation not to exceed the percentage contributed by the employer.

The College's contributions to the Local Annuity Program totaled \$179,017 for the 2014-15 fiscal year.

16. Other Termination Benefits

The College provides an IRS approved Code Section 401(a) pre-tax program for termination pay that permits the College to disburse termination pay in a tax-advantaged manner for both the College and the employee. Contributions are limited by IRS regulation. All employees in designated employee classes with at least 10 years of service at the time of separation are mandated to participate in this program. The College deferred \$345,034 in salaries for 23 employees during the 2014-15 fiscal year for other termination benefits.

17. Savings Incentive Plan

Effective January 1, 1994, the Board approved a Savings Incentive Plan as provided by Section 403(b) of the Internal Revenue Code of 1986. Under the Plan, all full-time employees can elect to defer a portion of their salary within Internal Revenue Service guidelines. The College may make a matching employer contribution in an amount to be determined annually by the Board at its discretion. During the 2014-15 fiscal year, the College matched one dollar for every dollar deferred by the employee up to the first 3 percent of employee compensation. Each employee is fully vested upon enrollment in the Plan, and is allowed to direct the investment of his or her account to any one of the various fund groups and insurance companies approved for investment by the College. During the 2014-15 fiscal year, the College contributed \$609,041 as matching funds under the Plan.

18. Construction Commitments

The College'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>
Lee Campus - Student Activity Center			
Construction	\$ 3,913,025	\$ -	\$ 3,913,025
Architect	1,998,914	1,274,359	724,555
Materials and Other Construction Exp.	108,531	18,076	90,455
Total	6,020,470	1,292,435	4,728,035
Lee Campus - Bldg G HVAC & Roof			
Construction	724,979	717,487	7,492
Architect	33,000	33,000	-
Materials and Other Construction Exp.	118,095	118,095	-
Total	876,074	868,582	7,492
Lee Campus - Bldg H Renovation & Remodeling			
Construction	4,045,600	28,525	4,017,075
Architect	450,000	306,008	143,992
Materials and Other Construction Exp.	104,400	33,701	70,699
Total	4,600,000	368,234	4,231,766
Lee Campus - Bldg K Roof, Window, & Lighting			
Construction	565,422	172,457	392,965
Architect	5,950	4,850	1,100
Materials and Other Construction Exp.	13,628	-	13,628
Total	585,000	177,307	407,693
Lee Campus - Minor Projects - Signage			
Materials and Other Construction Exp.	215,000	107,500	107,500
Total	215,000	107,500	107,500
Total	\$ 12,296,544	\$ 2,814,058	\$ 9,482,486

19. Risk Management Programs

The College 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. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums) and purchases excess insurance through commercial companies for claims in excess of specified amounts. Excess insurance from commercial companies provided coverage of up to \$150 million to February 28, 2015, and up to \$200 million from March 1, 2015, for property insurance. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 fiscal years. In addition, the College also purchased a

\$1,000,000 School Leader's Error and Omissions Policy which is required to operate the Lee Campus Collegiate Charter High School.

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

20. Functional Distribution of Operating Expenses

The functional classification of an operating expense (instruction, academic support, 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 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	\$ 30,229,038
Public Services	426,574
Academic Support	7,215,593
Student Services	10,189,277
Institutional Support	15,914,052
Operation and Maintenance of Plant	10,099,892
Scholarships and Waivers	16,031,168
Depreciation	6,155,539
Auxiliary Enterprises	1,531,826
Total Operating Expenses	\$ 97,792,959

21. Blended Component Unit

The College has one blended component unit as discussed in Note 1. The following financial information is presented net of eliminations for the College's blended component unit:

Condensed Statement of Net Position

	<u>Blended Component Unit Florida SouthWestern State College Financing Corporation</u>	<u>College</u>	<u>Eliminations</u>	<u>Total Primary Government</u>
Assets:				
Other Current Assets	\$ 2,879,034	\$ 32,857,344	\$ (109,141)	\$ 35,627,237
Capital Assets, Net	20,319,909	130,610,748	-	150,930,657
Other Noncurrent Assets	7,759,118	15,597,878	-	23,356,996
Total Assets	<u>30,958,061</u>	<u>179,065,970</u>	<u>(109,141)</u>	<u>209,914,890</u>
Deferred Outflows of Resources	<u>1,228,135</u>	<u>4,084,477</u>	<u>-</u>	<u>5,312,612</u>
Liabilities:				
Other Current Liabilities	1,045,749	5,865,821	(109,141)	6,802,429
Noncurrent Liabilities	25,231,387	31,272,669	-	56,504,056
Total Liabilities	<u>26,277,136</u>	<u>37,138,490</u>	<u>(109,141)</u>	<u>63,306,485</u>
Deferred Inflows of Resources	<u>-</u>	<u>7,376,303</u>	<u>-</u>	<u>7,376,303</u>
Net Position:				
Net Investment in Capital Assets	(360,148)	116,067,747	-	115,707,599
Restricted - Nonexpendable	-	731,365	-	731,365
Restricted - Expendable	1,770,976	29,574,340	-	31,345,316
Unrestricted	4,498,232	(7,737,798)	-	(3,239,566)
Total Net Position	<u>\$ 5,909,060</u>	<u>\$ 138,635,654</u>	<u>\$ -</u>	<u>\$ 144,544,714</u>

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

	Florida SouthWestern State College Financing Corporation	College	Eliminations	Total Primary Government
Operating Revenues	\$ 2,584,599	\$ 22,903,019	\$ -	\$ 25,487,618
Depreciation Expense	(568,152)	(5,587,387)	-	(6,155,539)
Other Operating Expenses	(840,476)	(90,796,944)	-	(91,637,420)
Operating Income (Loss)	1,175,971	(73,481,312)	-	(72,305,341)
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	648,133	68,541,691	-	69,189,824
Interest Expense	(929,738)	(606,165)	-	(1,535,903)
Other Nonoperating Expense	(33,786)	(1,919,119)	-	(1,952,905)
Net Nonoperating Revenues (Expenses)	(315,391)	66,016,407	-	65,701,016
Other Revenues	-	11,763,870	-	11,763,870
Increase in Net Position	860,580	4,298,965	-	5,159,545
Net Position, Beginning of Year	5,048,480	152,413,153	-	157,461,633
Adjustment to Beginning Net Position (1)	-	(18,076,464)	-	(18,076,464)
Net Position, Beginning of Year, as Restated	5,048,480	134,336,689	-	139,385,169
Net Position, End of Year	\$ 5,909,060	\$ 138,635,654	\$ -	\$ 144,544,714

Note: (1) As discussed in Note 3 to the financial statements.

Condensed Statement of Cash Flows

	Florida SouthWestern State College Financing Corporation	College	Eliminations	Total Primary Government
Net Cash Provided (Used) by:				
Operating Activities	\$ 1,882,840	\$ (67,950,037)	\$ -	\$ (66,067,197)
Noncapital Financing Activities	549,380	67,644,174	-	68,193,554
Capital and Related Financing Activities	(1,500,687)	2,318,410	-	817,723
Investing Activities	(515,271)	510,066	-	(5,205)
Net Increase in Cash and Cash Equivalents	416,262	2,522,613	-	2,938,875
Cash and Cash Equivalents, Beginning of Year	4,062,855	18,303,762	-	22,366,617
Cash and Cash Equivalents, End of Year	\$ 4,479,117	\$ 20,826,375	\$ -	\$ 25,305,492

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]
7/1/2009	\$ -	\$ 421,101	\$ 421,101	0%	\$ 25,684,249	1.6%
7/1/2011	-	580,062	580,062	0%	25,052,174	2.3%
7/1/2013	-	1,047,396	1,047,396	0%	29,665,206	3.5%

Note: (1) The College's OPEB actuarial valuation used the projected unit credit actuarial method to estimate the actuarial accrued liability.

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

	2014 (1)	2013 (1)
College's proportion of the FRS net pension liability	0.069878863%	0.065525694%
College's proportionate share of the FRS net pension liability	\$ 4,263,638	\$ 11,279,888
College's covered-employee payroll (2)	\$ 24,572,458	\$ 24,284,696
College's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	17.35%	46.45%
FRS Plan fiduciary net position as a percentage of the 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 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 College Contributions – Florida Retirement System Pension Plan

	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 1,830,437	\$ 1,530,644
FRS contributions in relation to the contractually required contribution	(1,830,437)	(1,530,644)
FRS contribution deficiency (excess)	\$ -	\$ -
College's covered-employee payroll (2)	\$ 26,165,336	\$ 24,572,458
FRS contributions as a percentage of covered-employee payroll	7.00%	6.23%

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

(2) Covered-employee payroll includes defined benefit plan actives 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 College's Proportionate Share
of the Net Pension Liability –
Health Insurance Subsidy Pension Plan**

	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.101425459%	0.099636556%
College's proportionate share of the HIS net pension liability	\$ 9,483,528	\$ 8,674,672
College's covered-employee payroll (2)	\$ 34,166,397	\$ 33,051,575
College's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	27.76%	26.25%
HIS Plan fiduciary net position as a percentage of the 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 College Contributions –
Health Insurance Subsidy Pension Plan**

	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 409,093	\$ 347,450
HIS contributions in relation to the contractually required HIS contribution	(409,093)	(347,450)
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll (2)	\$ 36,761,312	\$ 34,166,397
HIS contributions as a percentage of covered-employee payroll	1.11%	1.02%

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, and members in DROP.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. Schedule of Funding Progress – Other Postemployment Benefits Plan

The July 1, 2013, unfunded actuarial accrued liability of \$1,047,396 was significantly higher than the July 1, 2011, liability of \$580,062 as a result of the following:

- Demographic assumptions (rates of termination, retirement, disability, and mortality) were revised to be consistent with those used for the Florida Retirement System.
- The assumed per capita costs of healthcare were updated.
- The rates of healthcare inflation used to project the per capita healthcare costs were revised.
- The rates of participation in the Plan were adjusted to reflect current experience.
- The assumed conditions for retirement eligibility and rates of retirement were supplemented to accommodate those employees hired on or after July 1, 2011.

2. 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 percent to 2.6 percent, the real payroll growth assumption was decreased from 1 percent to 0.65 percent, and the overall payroll growth rate assumption was decreased from 4 percent to 3.25 percent. The long-term expected rate of return decreased from 7.75 percent to 7.65 percent.

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

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 4.63 percent to 4.29 percent.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida SouthWestern State College, 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 College's basic financial statements, and have issued our report thereon dated March 18, 2016, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the blended and discretely presented component units, as described in our report on the College'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 College'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 College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College'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 College'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.

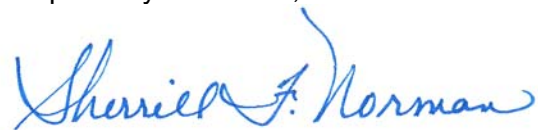
Compliance and Other Matters

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

Purpose of this Report

The purpose of 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 College'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 College's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 18, 2016