

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

FLORIDA GULF COAST UNIVERSITY

For the Fiscal Year Ended
June 30, 2015



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2014-15 fiscal year, Dr. Wilson G. Bradshaw served as President and the following individuals served as Members of the Board of Trustees:

Robbie Roepstorff, Chair	Richard Klaas
J. Dudley Goodlette, Vice Chair	Dr. John Little to 1-15-15
Joseph Catti	Kevin Price from 1-16-15
Thieldens Elneus ^a from 4-1-15	Russell Priddy
Dr. Shawn Felton ^b	Dr. Ken Smith from 1-16-15
Blake Gable	Christian Spilker to 1-15-15, from 3-20-15 ^d
Thomas Grady from 7-3-14 ^c	Domenic Volpi ^a to 3-31-15
Ann Hamilton to 3-19-15	Robert Wells

Notes: ^a Student body president.

^b Faculty Senate Chair.

^c Position vacant 7-1-14, through 7-2-14.

^d Term expired on 1-15-15. Reappointed on 3-20-15.

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

The team leader was Camesha N. Brown and the audit was supervised by Deirdre F. Waigand, CPA.

Please address inquiries regarding this report to Jaime 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 GULF COAST UNIVERSITY
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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

AUDIT OBJECTIVES AND SCOPE

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

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

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

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

AUDIT METHODOLOGY

The methodology used to develop the findings in this report included the examination of pertinent University records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.



Sherrill F. Norman, CPA
Auditor General

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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 Gulf Coast University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Florida Gulf Coast University Financing Corporation, a blended component unit, which represents 7.6 percent, 9.5 percent, and 9.1 percent, respectively, of the assets, net position, and revenues, reported for Florida Gulf Coast University. In addition, we did not audit the financial statements of the discretely presented component unit, which represents 100 percent of the transactions and account balances of the discretely presented component unit'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 Gulf Coast University and of its discretely presented component unit as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, Schedule of Funding Progress – Other Postemployment Benefits Plan, Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan, Schedule of University Contributions – Florida Retirement System Pension Plan, Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan, Schedule of University Contributions – Health Insurance Subsidy Pension Plan, and Notes To Required Supplementary Information** as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting

Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Florida Gulf Coast University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and 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 Florida Gulf Coast University'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 University for the fiscal year ended June 30, 2015, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2015, and June 30, 2014.

FINANCIAL HIGHLIGHTS

The University's assets totaled \$639.9 million at June 30, 2015. This balance reflects an \$8.2 million, or 1.3 percent, increase as compared to the 2013-14 fiscal year, resulting from increases in State noncapital appropriations, State capital appropriations, and income related to an increase in student enrollment. The increase in assets was accompanied with an increase in liabilities of \$18.2 million, or 6.8 percent, totaling \$284.2 million at June 30, 2015, compared to \$266 million at June 30, 2014. As a result, the University's net position decreased by \$12.5 million, resulting in a year-end balance of \$353.2 million. The increases in liabilities, deferred outflows and inflows of resources, and a decrease in net position were largely impacted by the adoption of Governmental Accounting Standards Board's (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The accounting standard requires the University, as a participating employer in the Florida Retirement System (FRS), to recognize its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. Changes in liabilities are recognized through the Statement of Revenues, Expenses, and Changes in Net Position, or reported as deferred outflows or inflows of resources on the Statement of Net Position, depending on the nature of the change. The initial adoption also resulted in an adjustment to beginning net position of \$22.2 million.

The University's revenues totaled \$216.8 million for the 2014-15 fiscal year, representing a 6.5 percent increase compared to the 2013-14 fiscal year due mainly to increases in State capital and noncapital appropriations, student tuition and fees, and sales and services of auxiliary enterprises. Operating expenses totaled \$197.4 million for the 2014-15 fiscal year, representing an increase of 5.3 percent as compared to the 2013-14 fiscal year due mainly to increases in compensation and employee benefits, utilities, and services and supplies.

Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University had a deficit in the unrestricted net position of \$9.7 million and its blended component unit had an unrestricted net position of \$22.2 million dollars, as a result the University reported a combined unrestricted net position of \$12.5 million. The significant decrease in the unrestricted net position was the results of recording long-term liabilities within the annually funded operational fund as required by *Government Accounting Standards*. The following table detailing the components of the College's ending net position demonstrates that the significant decrease in

the University's negative unrestricted net position was caused by long-term liabilities that will be paid over time and financed by future appropriations.

Unrestricted Net Position: University

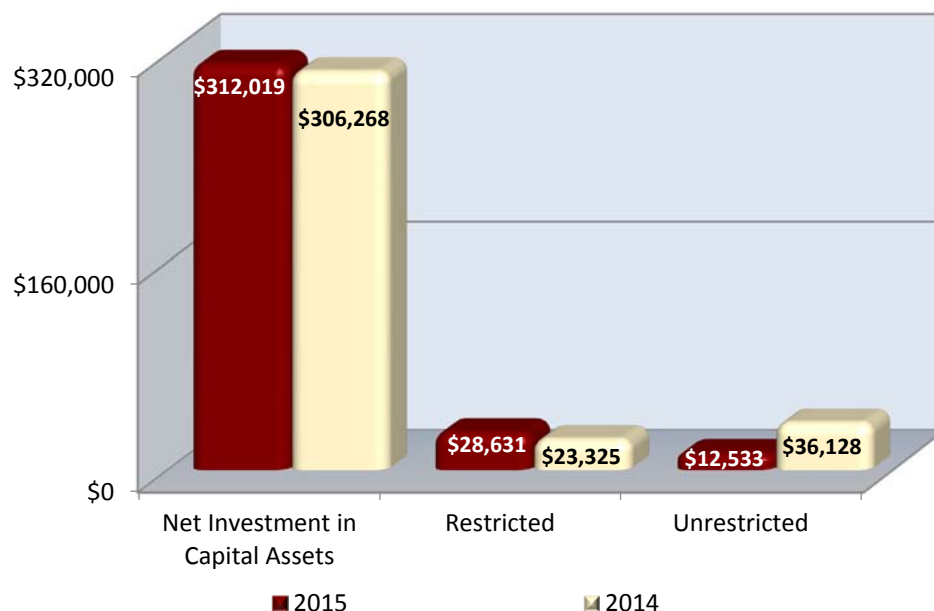
(In Thousands)

		Amount (In Thousands)
Unrestricted Fund Balance		\$ 39,916
Amount to be Financed in the Future		
Compensated Absences Liability	\$ 9,197	
Other Post Employment Benefits Payable	19,632	
Net Pension Liability	18,233	
Deferred Outflows of Resources	(10,210)	
Deferred Inflows of Resources	12,726	
Less, Total Amount to be Financed in the Future	<hr/>	<hr/> 49,578
University's Unrestricted Net Position		(9,662)
Blended Component Unit's Unrestricted Net Position		<hr/> 22,195
Total Ending Unrestricted Net Position		<hr/> <hr/> \$ 12,533

The University's comparative total net position by category for the fiscal years ended June 30, 2015, and June 30, 2014, is shown in the following graph:

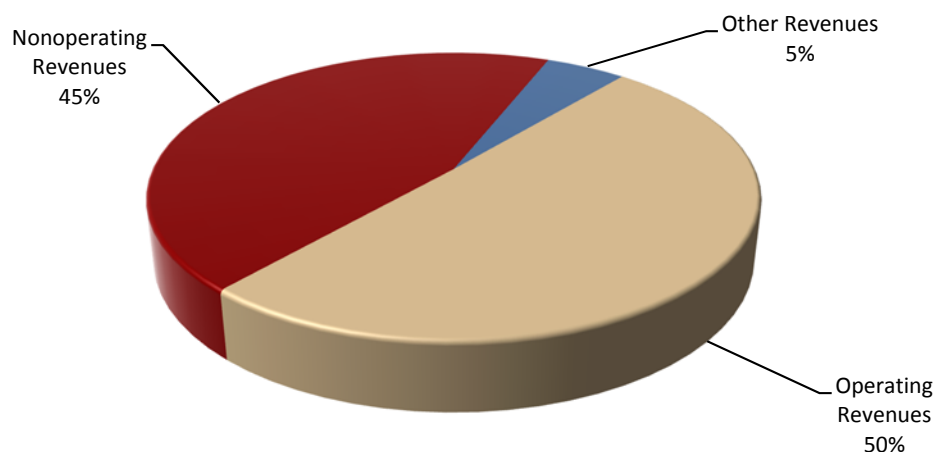
Net Position:

(In Thousands)



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

Total Revenues:



OVERVIEW OF FINANCIAL STATEMENTS

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

This MD&A focuses on the University, excluding the discretely presented component unit. MD&A information regarding the Corporation and Foundation component units can be found in their separately issued audit reports. Information regarding these component units, including summaries of the blended component unit's separately issued financial statements, is presented in the notes to financial statements.

The Statement of Net Position

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

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

Condensed Statement of Net Position at June 30

(In Thousands)

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets	\$ 89,778	\$ 79,235
Capital Assets, Net	532,873	532,128
Other Noncurrent Assets	17,270	20,396
Total Assets	<u>639,921</u>	<u>631,759</u>
Deferred Outflows of Resources	<u>10,210</u>	<u>-</u>
Liabilities		
Current Liabilities	23,250	20,627
Noncurrent Liabilities	260,972	245,411
Total Liabilities	<u>284,222</u>	<u>266,038</u>
Deferred Inflows of Resources	<u>12,726</u>	<u>-</u>
Net Position		
Net Investment in Capital Assets	312,019	306,268
Restricted	28,631	23,325
Unrestricted	12,533	36,128
Total Net Position	<u>\$ 353,183</u>	<u>\$ 365,721</u>

The University's financial position, as a whole, decreased during the fiscal year ended June 30, 2015, with a decrease of net position in the amount of \$12.5 million, or 3.4 percent, from the 2013-14 fiscal year primarily due to the increases in liabilities, and deferred outflows and inflows of resources by the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The initial adoption resulted in a decrease of \$22.2 million, or 61.4 percent, in unrestricted net position. This decrease in unrestricted net position was offset by increases in restricted net position of \$5.3 million, or 22.7 percent, and in net investment in capital assets of \$5.8 million, or 1.9 percent. The University continues to experience sound overall financial condition and health.

Total assets increased \$8.2 million, or 1.3 percent, mainly in current assets. Invested funds grew as a result of increased State noncapital appropriations. Funds due from State increased \$7.2 million, or 99 percent, for State capital appropriations for the Emergent Technology Institute. The slight increase in net capital assets was primarily from the completed construction of student housing offset by annual depreciation of University assets. Other noncurrent assets decreased as construction costs reduced unspent bond proceeds. Deferred outflows of resources increased \$10.2 million. This increase is due to new deferred outflows of pension resources associated with the implementation of GASB Statement No. 68.

Total liabilities increased \$18.2 million, or 6.8 percent. The liabilities for pension and for other postemployment benefits increased while construction contracts and bonds payable decreased. The change in the University's net position is determined by subtracting the increase in total liabilities and deferred inflows of resources from the increase in total assets and deferred outflows of resources.

Restricted net position includes \$8.2 million in the required debt service reserve accounts for Capital Improvement Revenue Bonds, Series 2010A, 2010B, 2011A, 2013A, and Loan Agreements 2005A and 2005B, and \$3 million restricted by the covenants of the Series 2007B, 2008A, and 2009A bond reimbursement agreements.

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

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

The following summarizes the University's activity for the 2014-15 and 2013-14 fiscal years:

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

(In Thousands)

	2014-15	2013-14
Operating Revenues	\$ 109,305	\$ 106,565
Less, Operating Expenses	197,375	187,491
Operating Loss	(88,070)	(80,926)
Net Nonoperating Revenues	86,746	84,733
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(1,324)	3,807
Other Revenues, Expenses, Gains, or Losses	10,970	4,278
Net Increase In Net Position	9,646	8,085
Net Position, Beginning of Year	365,721	357,636
Adjustment to Beginning Net Position (1)	(22,184)	-
Net Position, Beginning of Year, as Restated	343,537	357,636
Net Position, End of Year	\$ 353,183	\$ 365,721

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

Operating Revenues

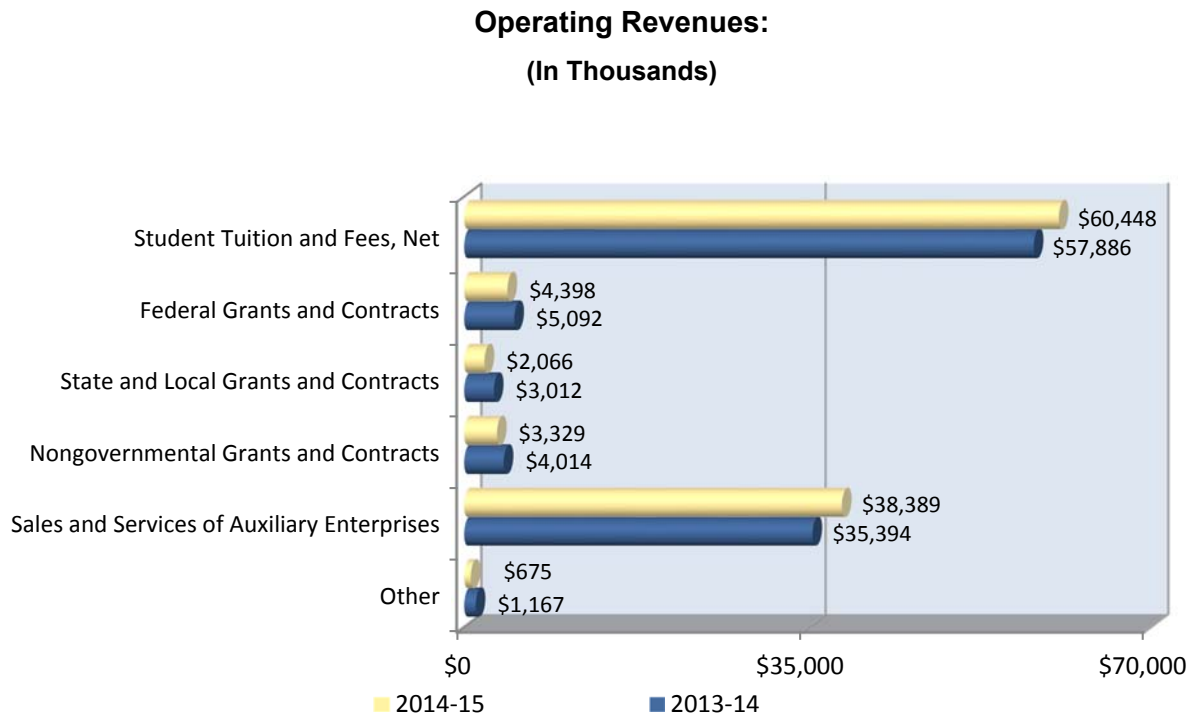
GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value. Operating revenues generally consist of student tuition and fees, grants and contracts, and auxiliary service revenues from students and others to provide them with instruction and other goods and services.

The following summarizes the operating revenues by source that were used to fund operating activities for the 2014-15 and 2013-14 fiscal years:

**Operating Revenues
For the Fiscal Years
(In Thousands)**

	<u>2014-15</u>	<u>2013-14</u>
Student Tuition and Fees, Net	\$ 60,448	\$ 57,886
Federal Grants and Contracts	4,398	5,092
State and Local Grants and Contracts	2,066	3,012
Nongovernmental Grants and Contracts	3,329	4,014
Sales and Services of Auxiliary Enterprises	38,389	35,394
Other	675	1,167
Total Operating Revenues	\$ 109,305	\$ 106,565

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



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

- Total operating revenues for the 2014-15 fiscal year were \$109.3 million, of which \$60.4 million were from net student tuition and fees. A tuition allowance, which represents the difference between the stated charges for goods and services provided by the University and the amount that is actually paid by a student or third party making payment on behalf of a student, totaled \$29 million. The reduction of gross fees of \$89.4 million resulted in net student tuition and fees of \$60.4 million, which represents an increase of \$2.6 million, or 4.4 percent, over the 2013-14 fiscal year. Increased student enrollment is the main reason for the revenue increase.
- Sales and services of auxiliary enterprises reflect a \$3 million, or 8.5 percent, increase over the 2013-14 fiscal year primarily due to the impact of the growth of student population on housing, health, and parking fees.

- Federal and non-Federal grants and contracts decreased by \$2.3 million because of the timing, number, and size of grants received through the Office of Research and Graduate Studies.

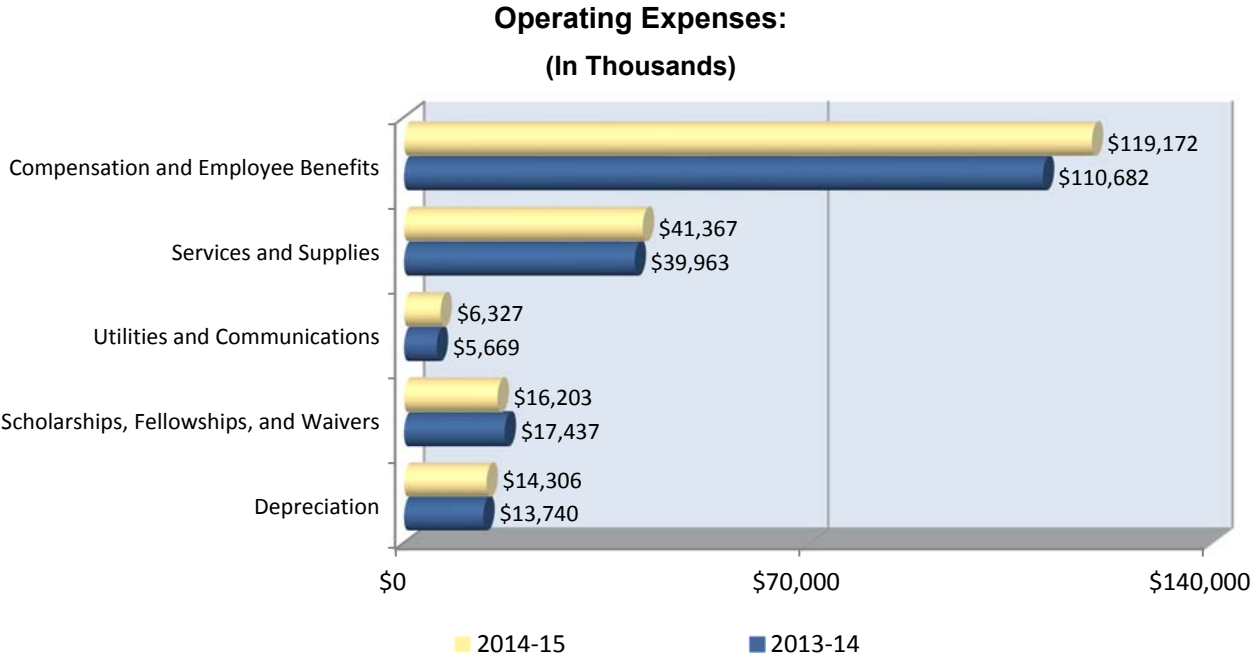
Operating Expenses

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

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

Operating Expenses		
(In Thousands)		
	2014-15	2013-14
Compensation and Employee Benefits	\$ 119,172	\$ 110,682
Services and Supplies	41,367	39,963
Utilities and Communications	6,327	5,669
Scholarships, Fellowships, and Waivers	16,203	17,437
Depreciation	14,306	13,740
Total Operating Expenses	\$ 197,375	\$ 187,491

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



Total operating expenses for the 2014-15 fiscal year were \$197.4 million, an increase of \$9.9 million, or 5.3 percent, over the 2013-14 fiscal year. Compensation and employee benefits increased \$8.5 million,

or 7.7 percent, from increases in the number of faculty and staff, and a salary increase of 3 percent in July 2014. Services and supplies increased \$1.4 million, or 3.5 percent, which was primarily associated with the growth of student population.

Nonoperating Revenues and Expenses

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

Nonoperating Revenues (Expenses):

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
State Noncapital Appropriations	\$ 64,463	\$ 59,565
Federal and State Student Financial Aid	27,732	28,628
Investment Income	845	1,448
Other Nonoperating Revenues	3,445	2,978
Interest on Capital Asset-Related Debt	(9,619)	(7,615)
Other Nonoperating Expenses	(120)	(271)
Net Nonoperating Revenues	<u>\$ 86,746</u>	<u>\$ 84,733</u>

The increase of \$2 million, or 2.4 percent in net nonoperating revenues is primarily due to the increase in State noncapital appropriations. State noncapital appropriations increased \$4.9 million primarily from legislative priorities for the University of a specific, recurring special appropriation of \$3.7 million to support programs designed to enhance student success. In addition, the University was awarded \$3.3 million in Performance-Based Funding for the 2014-15 fiscal year. Federal and State Student Financial Aid decreased slightly by \$0.9 million, or 3.1 percent, primarily due to the decrease in Florida Bright Futures awards as a result of the program's increased eligibility requirements for scholarships.

Other Revenues

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

Other Revenues, Expenses, Gains, or Losses:

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
State Capital Appropriations	\$ 10,824	\$ 3,108
Capital Grants, Contracts, Donations, and Fees	146	1,170
Total	<u>\$ 10,970</u>	<u>\$ 4,278</u>

State capital appropriations increased \$7.7 million, or 248.3 percent, as compared to the 2013-14 fiscal year, primarily due to funding of the Emergent Technologies Institute and critical deferred maintenance.

State contributions (appropriations) for capital projects, depending upon the various stages of planning and completion, will fluctuate from year to year.

The Statement of Cash Flows

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

The following summarizes cash flows for the 2014-15 and 2013-14 fiscal years:

Condensed Statement of Cash Flows:

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
Cash Provided (Used) by:		
Operating Activities	\$ (67,790)	\$ (64,285)
Noncapital Financing Activities	95,553	91,094
Capital and Related Financing Activities	(27,635)	(37,655)
Investing Activities	<u>(2,463)</u>	<u>(11,621)</u>
Net Decrease in Cash and Cash Equivalents	(2,335)	(22,467)
Cash and Cash Equivalents, Beginning of Year	<u>2,936</u>	<u>25,403</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 601</u></u>	<u><u>\$ 2,936</u></u>

Major sources of funds included in operating activities are net student tuition and fees of \$60.5 million; Federal, State and local grants and contracts of \$10.2 million; and sales and services of auxiliary enterprises of \$38.4 million. Major uses of funds were payments made to and on behalf of employees totaling \$116.6 million; payments to suppliers totaling \$45.1 million; and payments to and on behalf of students for scholarships and fellowships totaling \$16.2 million. The increase in cash used by operating activities was due primarily to an increase in cash used for payments to employees and a decrease in cash provided by grants and contracts offset by an increase in cash provided by net student tuition and fees.

The largest source of inflow of cash from noncapital financing activities was State noncapital appropriations in the amount of \$64.5 million. Also included in noncapital financing revenues was Federal and State student financial aid of \$27.7 million, and \$48.8 million of Federal direct loan program receipts. The major use of funds was Federal direct loan program disbursements of \$48.7 million.

Cash used by capital and related financing activities was \$27.6 million. Net cash used was primarily due from \$16.6 million for the purchase or construction of capital assets and \$14.6 million in principal and interest payments on asset related debt.

Cash used by investing activities was \$2.5 million from the net purchases of investments.

CAPITAL ASSETS, CAPITAL COMMITMENTS, AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the University had \$656.4 million in capital assets, less accumulated depreciation of \$123.5 million, for net capital assets of \$532.9 million. Depreciation charges for the current fiscal year totaled \$14.3 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30:

(In Thousands)

	2015	2014
Land	\$ 57,358	\$ 57,358
Buildings	428,617	402,904
Construction in Progress	7,532	33,492
Infrastructure and Other Improvements	20,847	19,601
Furniture and Equipment	14,330	14,646
Library Resources	1,778	1,567
Property Under Capital Lease	60	115
Works of Art and Historical Treasures	2,314	2,349
Other Capital Assets	37	96
Capital Assets, Net	\$532,873	\$532,128

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

Capital Commitments

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

	Amount (In Thousands)
Total Committed	\$ 22,295
Completed to Date	(7,532)
Balance Committed	\$ 14,763

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

Debt Administration

As of June 30, 2015, the University had \$220.9 million in outstanding bonds payable, loans payable, and capital leases payable, representing a decrease of \$5 million, or 2.2 percent, from the prior fiscal year resulting from principal payments. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt, at June 30:

(In Thousands)

	<u>2015</u>	<u>2014</u>
Bonds Payable	\$ 204,505	\$ 208,967
Loans Payable	16,200	16,600
Capital Leases Payable	148	293
Total	<u>\$ 220,853</u>	<u>\$ 225,860</u>

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on its financial position or operations during the 2015-16 fiscal year. The University's financial outlook for the future continues to be positive. The level of State support, and student tuition and fee increases impact the University's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. The level of State support is one of the key factors influencing the University's activities. Financial and political support from State government is expected to increase as economic conditions improve. While student enrollment increases, student tuition and fees will remain at the same level in the 2015-16 fiscal year, and resources will continue to be managed through expenditure analyses and efficiencies.

The budget that the Florida Legislature adopted for the 2015-16 fiscal year provided \$72.3 million for the University's State noncapital appropriations, or an increase of 12.7 percent from the 2014-15 fiscal year. The legislative priorities for the University included \$3.3 million in Performance-Based Incentives for the 2015-16 fiscal year.

Another significant factor in the University's economic position relates to its ability to recruit and retain high quality students. The Fall 2015 enrollment of 14,796 students increased 0.8 percent over the Fall 2014 enrollment of 14,673 students. First time-in-college freshman admission of 2,697 students decreased slightly from 2,793 students in the 2014-15 fiscal year. Efforts to improve retention, such as an aggressive marketing plan to recruit qualified students and enhanced intervention to assist academic success, will help ensure total enrollment continues in a positive trend. In the 2015-16 fiscal year, the University expects an increase in revenue from student tuition and fees due to increased enrollment.

The State has approved and appropriated funds to the University's capital budget for the 2015-16 fiscal year in the amount of \$8.5 million. Public Education Capital Outlay appropriations for the 2015-16 fiscal year are for capital improvement projects in the amount of \$6.8 million, and repairs and maintenance in the amount of \$0.4 million. The Capital Improvement Fee appropriation of \$1.3 million for the 2015-16 fiscal year is for continued funding of the student recreation center.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Mr. Steve Magiera, CPA, Vice President of Administration and Finance, Florida Gulf Coast University, 10501 FGCU Boulevard South, Fort Myers, Florida 33965.

BASIC FINANCIAL STATEMENTS

Florida Gulf Coast University A Component Unit of the State of Florida Statement of Net Position

June 30, 2015

	University	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 225,377	\$ 17,131,534
Investments	71,791,344	-
Accounts Receivable, Net	2,832,559	618,666
Loans Receivable, Net	10,253	-
Due from State	14,493,091	-
Other Current Assets	425,738	-
Total Current Assets	89,778,362	17,750,200
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	375,375	-
Investments	-	763,653
Restricted Investments	11,147,377	76,255,148
Accounts and Pledges Receivable, Net	-	774,654
Note Receivable	-	5,000,000
Real Estate Held for Investment	-	12,251,500
Depreciable Capital Assets, Net	466,247,929	-
Nondepreciable Capital Assets	66,624,828	-
Other Noncurrent Assets	5,747,462	-
Total Noncurrent Assets	550,142,971	95,044,955
Total Assets	639,921,333	112,795,155
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	10,210,000	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	9,454,487	122,752
Construction Contracts Payable	2,319,980	-
Salary and Wages Payable	2,693,926	-
Deposits Payable	983,726	-
Unearned Revenue	855,016	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	5,350,000	-
Loans Payable	400,000	150,000
Capital Leases Payable	148,141	-
Compensated Absences Payable	679,713	-
Net Pension Liability	365,143	-
Gift Annuities Payable	-	57,297
Total Current Liabilities	23,250,132	330,049

Florida Gulf Coast University
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2015

	University	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	199,155,311	-
Loans Payable	15,800,000	6,400,000
Compensated Absences Payable	8,517,336	-
Other Postemployment Benefits Payable	19,632,000	-
Net Pension Liability	17,867,579	-
Other Noncurrent Liabilities	-	512,793
Total Noncurrent Liabilities	260,972,226	6,912,793
Total Liabilities	284,222,358	7,242,842
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	12,725,823	-
NET POSITION		
Net Investment in Capital Assets	312,019,306	-
Restricted for Nonexpendable:		
Endowment	-	60,884,355
Restricted for Expendable:		
Debt Service	11,202,778	-
Loans	531,970	-
Capital Projects	12,867,118	-
Other	4,029,364	36,274,872
Unrestricted	12,532,616	8,393,086
TOTAL NET POSITION	\$ 353,183,152	\$ 105,552,313

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

Florida Gulf Coast University
A Component Unit of the State of Florida
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

	University	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$29,010,914 (\$3,026,796 Pledged for Parking Facility Capital Improvement Debt)	\$ 60,447,721	\$ -
Federal Grants and Contracts	4,398,053	-
State and Local Grants and Contracts	2,065,901	-
Nongovernmental Grants and Contracts	3,328,907	-
Sales and Services of Auxiliary Enterprises (\$334,127 Pledged for Parking Facility Capital Improvement Debt, \$29,534,229 Pledged for Housing Facility Capital Improvement Debt, and \$1,895,580 Pledged for Student Services Capital Improvement Debt)	38,389,050	-
Gifts and Donations	-	9,541,300
Rental Income Other	-	3,235,253
Other Operating Revenues	675,276	-
Total Operating Revenues	109,304,908	12,776,553
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	119,171,894	-
Services and Supplies	41,367,242	-
Utilities and Communications	6,327,127	-
Scholarships, Fellowships, and Waivers	16,203,302	2,010,395
Depreciation	14,305,307	932
General and Administrative	-	1,416,261
University Support	-	3,186,194
Program Services	-	3,629,748
Other Operating Expenses	-	21,080
Total Operating Expenses	197,374,872	10,264,610
Operating Income (Loss)	(88,069,964)	2,511,943
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	64,463,395	-
Federal and State Student Financial Aid	27,732,044	-
Investment Income	845,477	490,633
Other Nonoperating Revenues	3,444,988	-
Interest on Capital Asset-Related Debt	(9,619,346)	(130,314)
Other Nonoperating Expenses	(120,049)	-
Net Nonoperating Revenues	86,746,509	360,319
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(1,323,455)	2,872,262
State Capital Appropriations	10,824,177	-
Capital Grants, Contracts, Donations, and Fees	146,174	2,103,779
Increase in Net Position	9,646,896	4,976,041
Net Position, Beginning of Year	365,720,621	100,576,272
Adjustment to Beginning Net Position	(22,184,365)	-
Net Position, Beginning of Year, as Restated	343,536,256	100,576,272
Net Position, End of Year	\$ 353,183,152	\$ 105,552,313

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

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Florida Gulf Coast University
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2015

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 60,459,674
Grants and Contracts	10,175,399
Sales and Services of Auxiliary Enterprises	38,389,050
Payments to Employees	(116,563,627)
Payments to Suppliers for Goods and Services	(45,088,629)
Payments to Students for Scholarships and Fellowships	(16,203,302)
Loans Issued to Students	9,848
Other Operating Receipts	1,031,290
	(67,790,297)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	64,463,395
Federal and State Student Financial Aid	27,732,044
Federal Direct Loan Program Receipts	48,793,876
Federal Direct Loan Program Disbursements	(48,748,821)
Net Change in Funds Held for Others	(132,731)
Other Nonoperating Receipts	3,444,988
	95,552,751
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	3,615,000
Purchase or Construction of Capital Assets	(16,623,809)
Principal Paid on Capital Debt and Leases	(4,965,233)
Interest Paid on Capital Debt and Leases	(9,660,987)
	(27,635,029)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales of Investments	140,524,540
Purchases of Investments	(144,294,012)
Investment Income	1,306,798
	(2,462,674)
Net Decrease in Cash and Cash Equivalents	(2,335,249)
Cash and Cash Equivalents, Beginning of Year	2,936,001
	\$ 600,752

Florida Gulf Coast University
A Component Unit of the State Of Florida
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2015

	University
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (88,069,964)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	14,305,307
Changes in Assets and Liabilities:	
Receivables, Net	332,767
Other Noncurrent Assets	425,738
Accounts Payable	2,188,020
Salary and Wages Payable	351,290
Deposits Payable	141,924
Compensated Absences Payable	370,797
Unearned Revenue	277,644
Other Postemployment Benefits Payable	3,322,000
Net Pension Liability	(6,990,857)
Deferred Outflows of Resources Related to Pensions	(7,170,786)
Deferred Inflows of Resources Related to Pensions	12,725,823
NET CASH USED BY OPERATING ACTIVITIES	\$ (67,790,297)

**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.	\$ (461,321)
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (120,049)
Donations of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 146,175

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

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

Blended Component Unit. Although it is legally separate from the University, the Florida Gulf Coast University Financing Corporation (Corporation) is included within the University's reporting entity as a blended component unit. The Corporation was incorporated on April 11, 2003, as a not-for-profit Florida corporation under the provisions of Chapter 617, Florida Statutes, and is a direct-support organization of the University. The Corporation was created to receive, hold, invest, and administer property and to make expenses for the exclusive benefit of the University. Due to the substantial economic relationship between the Corporation and the University, the financial activities of the Corporation are included in the University's financial statements. An annual audit of the Corporation is conducted by independent certified public accountants and is submitted to the Auditor General and the University Board of Trustees. Additional information on the Corporation, including copies of audit reports, is available by contacting the University Controller's office. Condensed financial statements for the Corporation are shown in a subsequent note. The condensed financial statements are reported net of eliminations.

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the Florida Gulf Coast University Foundation, Inc. (Foundation), as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011, is included within the University reporting entity as a discretely presented component unit. The Foundation was incorporated on April 19, 1993, as a not-for-profit Florida corporation under the provisions of Chapter 617, Florida Statutes. The Foundation is a legally separate direct-support organization of the University and is governed by a separate board. Its purpose is to encourage, solicit, collect, receive, and administer gifts

and bequests of property and funds for scientific, educational, and charitable purposes, all for the advancement of the University and its objectives.

An annual audit of the Foundation is conducted by independent certified public accountants and is submitted to the Auditor General and the University Board of Trustees. Additional information on the Foundation, including copies of audit reports, is available by contacting the University Controller's Office.

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

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

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

The University's blended and discretely presented 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 follow GASB standards of accounting and financial reporting.

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

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these

activities as well as administration, operation and maintenance of capital assets, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, 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 University's policy to first apply the restricted resources to such programs, followed by the use of the unrestricted resources.

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

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

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

The amount reported as restricted cash and cash equivalents for the University at June 30, 2015, includes at fair value \$370,493 of Corporation moneys held by the lender and owner of the 2005B Loan as a debt service reserve requirement.

Cash and Cash Equivalent – Component Unit. The amount reported as cash and cash equivalents for the Foundation (discretely presented component unit) at June 30, 2015, includes \$11,329,046 of bank deposits of which \$498,847 is insured by the Federal deposit insurance with the remainder of \$10,830,199 collateralized under the Florida Public Deposits Program. The Foundation also had cash held on deposit with investment managers at June 30, 2015, totaling \$295,273, of which \$245,169 was covered by the Securities Investor Protection Corporation and \$50,104 was uninsured and uncollateralized.

Cash and cash equivalents reported for the Foundation at June 30, 2015, also includes at fair value \$5,502,554 of Foundation moneys held in the State Treasury Special Purpose Investment Account (SPIA) investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.67 years, and fair

value factor of 1.0013 at June 30, 2015. The Foundation relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Capital Assets. University capital assets consist of land; works of art and historical treasures; construction in progress; buildings; infrastructure and other improvements; furniture and equipment; library resources; property under capital leases; and computer software and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$5,000 for tangible personal property and \$100,000 for new buildings and infrastructure and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 35 to 50 years
- Infrastructure and Other Improvements – 10 to 50 years
- Furniture and Equipment:
 - Equipment (Other than Moveable) – 10 to 25 years
 - Computer Equipment – 3 to 6 years
 - Moveable Equipment – 5 to 20 years
- Library Resources – 10 years
- Property Under Capital Leases – 5 to 8 years
- Works of Art and Historical Treasures – 20 years
- Computer Software and Other Capital Assets – 4 to 10 years

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, loans payable, capital lease payable, compensated absences payable, other postemployment benefits payable, and net pension liability that are not scheduled to be paid within the next fiscal year. Bonds payable are reported net of unamortized premium or discount. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method.

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

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

3. Adjustment to Beginning Net Position

The beginning net position of the University was decreased by \$22,184,365 due to the adoption of a new GASB Pronouncement, Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 requires the University to recognize its proportionate share of the net pension liabilities and related pension amounts of the cost-sharing multiple-employer FRS and HIS defined benefit plans.

4. Deficit Net Position in Individual Funds

The University reported an unrestricted net position, which included a deficit in the current funds-unrestricted 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 funds - unrestricted.

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (21,089,257)
Auxiliary Funds	<u>11,427,044</u>
Total University Net Position	(9,662,213)
Blended Component Unit Unrestricted Net Position	<u>22,194,829</u>
Total	<u>\$ 12,532,616</u>

5. Investments

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The Board of Trustees has not adopted a written investment policy. As such, pursuant to Section 218.415(17), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. Of the reported investments, \$3 million is restricted by the covenants of the bond reimbursement agreements for the Capital Improvement Revenue Bonds Series 2007B, 2008A and 2009A and \$7,832,285 for debt service reserve accounts for the Series 2005A and 2005B loans, Series 2010A, 2010B, 2011A, and 2013A bonds. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

External Investment Pools

The University reported investments at fair value totaling \$82,938,721 at June 30, 2015, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.67 years and fair value factor of 1.0013 at June 30, 2015. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the University's discretely presented component unit (Foundation) at June 30, 2015, are reported at fair value as follows:

<u>Investment Type</u>	<u>Amount</u>
Obligation of United States Government	
Agency and Instrumentalities	\$ 2,981,524
United States Treasury Securities	1,546,774
Bonds, Notes, and Other Debt Securities	13,205,814
Stocks and Other Equity Securities	27,415,320
Mutual Funds	31,853,125
Other Investments	16,244
Total Component Unit Investments	<u><u>\$ 77,018,801</u></u>

The Foundation's investment policy allows for investments in equity securities traded on the principal United States Stock Exchanges (NYSE and NASDAQ), and the Foundation only purchases equity securities of companies with a market capitalization of at least \$1 billion. For fixed income instruments, the Foundation's policy allows investments in bonds issued by the United States Government, an agency of the United States Government, public traded corporations or their affiliates, taxable municipal bonds, preferred stocks, and real estate investment trusts.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy does not limit debt obligation maturities. The Foundation's investments in debt securities at June 30, 2015, are reported at fair value as follows:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>				
	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1 - 5 Years</u>	<u>5 - 10 Years</u>	<u>Over 10 Years</u>
Obligations of United States Government					
Agencies and Instrumentalities	\$ 2,981,524	\$ 150,319	\$ 2,324,844	\$ 506,361	\$ -
Bonds, Notes, and Other Debt Securities	13,205,814	51,412	8,374,882	4,248,174	531,346
Total	<u><u>\$ 16,187,338</u></u>	<u><u>\$ 201,731</u></u>	<u><u>\$ 10,699,726</u></u>	<u><u>\$ 4,754,535</u></u>	<u><u>\$ 531,346</u></u>

Credit Risk: Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligation. As required by the Foundation's investment policy, all corporate bond issues are rated BAA

or BBB or better by Moody's or Standard & Poor's rating services, respectively. The Foundation's mutual funds are not rated by a nationally recognized statistical rating organization.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investments that are held by someone other than the component unit and not registered in their names. The Foundation utilizes the services of an investment advisor and several investment managers. All investments, except for certificates of deposit and debt securities, are held by the investment managers and are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Foundation's name. The Foundation's mutual fund investments totaling \$31,853,125 at June 30, 2015, are not exposed to custodial credit risk as they are not evidenced by securities that exist in physical or book entry form. There were no losses during the period due to default by counterparties to investment transactions.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the component unit's investment in a single issuer. At June 30, 2015, the Foundation's investments in each Collective Investment Fund exceeded five percent (5%) of total investments.

6. Receivables

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2015, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 1,292,286
Student Tuition and Fees	1,468,234
Other	72,039
Total Accounts Receivable	<u>\$ 2,832,559</u>

Loans Receivable. Loans receivable consist of short-term loans made to students pending the receipt of student financial aid.

Allowance for Doubtful Receivables. Allowances for doubtful accounts, and loans receivable, are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable and loans receivable, are reported net of allowances of \$739,089 and \$11,119, respectively, at June 30, 2015.

No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

7. Due From State

The amount due from State consists of \$14,493,091 of Public Education Capital Outlay, Capital Improvement Fee Trust Fund and Lottery funds for construction of University facilities.

8. 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	\$ 57,357,965	\$ -	\$ -	\$ 57,357,965
Works of Art and Historical Treasures	1,735,358	-	-	1,735,358
Construction in Progress	33,491,458	14,568,947	40,528,900	7,531,505
Total Nondepreciable Capital Assets	\$ 92,584,781	\$ 14,568,947	\$ 40,528,900	\$ 66,624,828
Depreciable Capital Assets:				
Buildings	\$ 472,491,372	\$ 36,006,564	\$ -	\$ 508,497,936
Infrastructure and Other Improvements	29,077,784	2,282,505	-	31,360,289
Furniture and Equipment	34,149,912	2,382,038	1,330,949	35,201,001
Library Resources	10,571,759	470,851	-	11,042,610
Property Under Capital Leases	1,946,259	-	-	1,946,259
Works of Art and Historical Treasures	687,143	-	-	687,143
Computer Software and Other Capital Assets	1,160,510	-	116,657	1,043,853
Total Depreciable Capital Assets	550,084,739	41,141,958	1,447,606	589,779,091
Less, Accumulated Depreciation:				
Buildings	69,586,387	10,294,252	-	79,880,639
Infrastructure and Other Improvements	9,476,433	1,037,259	-	10,513,692
Furniture and Equipment	19,503,584	2,566,341	1,198,800	20,871,125
Library Resources	9,005,113	259,145	-	9,264,258
Property Under Capital Leases	1,831,710	54,984	-	1,886,694
Works of Art and Historical Treasures	73,435	34,464	-	107,899
Computer Software and Other Capital Assets	1,064,650	58,862	116,657	1,006,855
Total Accumulated Depreciation	110,541,312	14,305,307	1,315,457	123,531,162
Total Depreciable Capital Assets, Net	\$ 439,543,427	\$ 26,836,651	\$ 132,149	\$ 466,247,929

9. Unearned Revenue

Unearned revenue consists of grants and contracts received prior to fiscal year-end related to subsequent accounting periods.

10. Deferred Outflow / Inflow of Resources

Certain changes in the University's proportionate share of the net pension liabilities of the cost-sharing multiple-employer Florida Retirement System and Health Insurance Subsidy defined benefit plans are reported as deferred outflows and inflows of resources related to pensions. These include changes in actuarial assumptions and other inputs used to measure the pension liabilities, differences between actual and expected experience in the measurement of the liabilities, the net difference between projected and actual earnings on pension plan investments, as well as changes in the University's proportion of the collective net pension liabilities since the prior measurement date and changes between the University's contributions and its proportionate share of contributions. University contributions to the pension plan subsequent to the measurement date for the collective net pension liabilities are reported as deferred outflows. Total deferred outflows of resources related to pensions were \$10,210,000 and deferred inflows of resources related to pensions were \$12,725,823 for the fiscal year ended June 30, 2015. Note 12 includes a complete discussion of defined benefit pension plans.

11. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2015, include bonds payable, loans payable, capital leases payable, compensated absences payable, other postemployment benefits payable, and net pension liability. Long-term liabilities activity for the fiscal year ended June 30, 2015, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 208,966,952	\$ -	\$ 4,461,641	\$ 204,505,311	\$ 5,350,000
Loans Payable	16,600,000	-	400,000	16,200,000	400,000
Capital Leases Payable	293,374	-	145,233	148,141	148,141
Compensated Absences Payable	8,826,252	1,225,410	854,613	9,197,049	679,713
Other Postemployment Benefits Payable	16,310,000	3,445,000	123,000	19,632,000	-
Net Pension Liability (1)	25,223,579	8,774,179	15,765,036	18,232,722	365,143
Total Long-Term Liabilities	\$ 276,220,157	\$ 13,444,589	\$ 21,749,523	\$ 267,915,223	\$ 6,942,997

Note: (1) The beginning balance resulted from the implementation of GASB Statement No. 68. See Notes 2 and 3 to the financial statements.

Revenue Bonds Payable. Capital Improvement Revenue Bonds were issued to construct University facilities, including parking garages and student housing facilities. Capital Improvement Revenue Bonds outstanding, which include both term and serial bonds, are secured by a pledge of housing rental revenues, traffic and parking fees, and an assessed transportation fee based on credit hours.

In prior years, the Florida Gulf Coast University Financing Corporation (Corporation) issued Capital Improvement Revenue Bonds, Series 2003, 2005A, 2007A, 2008A, 2010A, 2010B, 2011A, and 2013A to construct or purchase student housing facilities; Series 2007B to construct and equip an addition to the Student Union Facility; and Series 2005B, 2007C, and 2009A to construct student parking garages.

On July 1, 2013, the Corporation entered into loan agreements authorizing the refunding of Capital Improvement Revenue Bonds, Series 2005A (Student Residences Phase VII) and Capital Improvement Revenue Bonds, Series 2005B (Student Parking Phase I) which resulted in defeasance of the variable rate capital improvement revenue bond debt and securing fixed rate loans. Accordingly, the Capital Improvement Revenue Bonds, Series 2005A and 2005B are no longer reported as a bond payable on the face of the statement of net position for the reporting period ended June 30, 2015, and the new fixed rate tax exempt loan is reported as loans payable.

The University has entered into a Master Ground and Operating lease Agreement with the Corporation. The University leases land to the Corporation for a rental fee of \$1 per year. The land covered by the ground lease together with the improvements thereon is leased back to the University to manage and operate. The master lease will terminate on the date on which the revenue bonds and any related obligations are paid in full. Revenue from the student residence facilities and parking facilities is pledged to pay rent to the Corporation or its assignees equal to the debt service on the revenue bonds. During the 2014-15 fiscal year, parking facilities rental and fee income, student residence rental income, and student union facilities sales and services totaled \$3,360,923, \$29,534,229, and \$1,895,580, respectively.

The University had the following capital improvement debt payable outstanding at June 30, 2015:

Capital Improvement Revenue Bonds Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Capital Improvement Revenue Bonds:				
2003 Student Residences (Phase VI)	\$ 47,500,000	\$ 37,820,000	4.00 to 5.00	2034
2007A Student Residences (Phase VIII)	25,000,000	21,861,174	4.00 to 5.00	2037
2007B Student Union (Facility)	6,000,000	5,300,000	.07 (2)	2037
2007C Student Parking (Phase II)	10,000,000	8,412,960	4.00 to 4.75	2037
2008A Student Residences (Phase IX)	22,000,000	19,285,000	.08 (2)	2038
2009A Student Parking (Phase III)	8,000,000	7,115,000	.08 (2)	2039
2010A Student Housing (Phase X)	32,000,000	29,339,949	3.00 to 5.50	2040
2010B Student Housing (Phase XI)	17,000,000	15,595,723	2.00 to 5.00	2040
2011A Student Housing (Phase XII)	30,000,000	28,808,890	4.00 to 5.50	2041
2013A Student Housing (Phase XIII)	30,000,000	30,966,615	2.25 to 5.00	2043
Total Capital Improvement Revenue Bonds	\$ 227,500,000	\$ 204,505,311		

Notes: (1) Amount outstanding includes unamortized discounts and premiums.

(2) Variable interest rate at June 30, 2015.

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

Fiscal Year Ending June 30	Principal	Interest	Total
2016	\$ 5,350,000	\$ 7,929,162	\$ 13,279,162
2017	5,525,000	7,763,405	13,288,405
2018	5,715,000	7,585,338	13,300,338
2019	5,945,000	7,382,007	13,327,007
2020	6,175,000	7,170,254	13,345,254
2021-2025	34,870,000	32,282,503	67,152,503
2026-2030	43,125,000	25,065,565	68,190,565
2031-2035	50,980,000	15,476,062	66,456,062
2036-2040	38,930,000	6,544,897	45,474,897
2041-2043	6,805,000	600,125	7,405,125
Subtotal	203,420,000	117,799,318	321,219,318
Net Discounts and Premiums	1,085,311	-	1,085,311
Total	\$ 204,505,311	\$ 117,799,318	\$ 322,304,629

Loans Payable. On March 27, 2006, the Corporation entered into a Tax Exempt Note, Series 2005, in the amount of \$5 million. The Corporation drew the entire \$5 million to purchase land for the purpose of establishing a Naples Center which reflects the outstanding balance of the loan at June 30, 2015. Principal payments are equal to all funds collected by the Foundation pursuant to a capital campaign of the Florida Gulf Coast University Naples Center Project. The obligations under the loan are secured solely by the assignment of the capital campaign. As of June 30, 2015, the Foundation had raised \$1 million of the \$5 million capital campaign toward this project. Interest is assessed on the difference between the \$5 million borrowed and the donations collected reduced by the amount of interest income earned during the year on the donations. A schedule of future minimum payments remaining under the loan agreement cannot be amortized due to the unknown timing of capital campaign pledges and receipt

of such pledges. The maturity date of the loan and all indebtedness outstanding was amended on October 1, 2015, and becomes due on or before September 30, 2016.

On July 1, 2013, the Corporation entered into Loan Agreement (2005A), dated July 1, 2013, in the amount of \$6,800,000, and a Loan Agreement (2005B), dated July 1, 2013, in the amount of \$5,100,000, collectively hereafter referred to as the Loan, authorizing the refunding of Capital Improvement Revenue Bonds, Series 2005A (Student Residence Phase VII), and Capital Improvement Revenue Bonds, Series 2005B (Student Parking Phase I), which resulted in defeasance of the variable rate capital improvement revenue bond debt and securing fixed rate tax-exempt loans. The proceeds from the fixed rate tax-exempt loans were used to refund the outstanding principal debt of Capital Improvement Revenue Bonds, Series 2005A, in the par amount of \$6,800,000, and Capital Improvement Revenue Bonds, Series 2005B, in the par amount of \$5,100,000. Accordingly, the Capital Improvement Revenue Bonds, Series 2005A and Series 2005B, are no longer reported as a bond payable on the face of the statement of net position for the reporting period ended June 30, 2015, and the new fixed rate tax-exempt loan is reported as loans payable. The maturity dates or principal payment schedules were not modified, and there was no economic gain or loss from the advanced refunding of the bond debt.

On February 1, 2014, principal loan payments were made in the amount of \$300,000 (\$200,000 for Loan Payable 2005A and \$100,000 for Loan Payable 2005B) leaving outstanding balances of \$6,600,000 for Loan Payable 2005A and \$5,000,000 for Loan Payable 2005B at June 30, 2015. The annual requirements to amortize the outstanding loans as of June 30, 2015, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2016	\$ 400,000	\$ 292,320	\$ 692,320
2017	5,300,000	281,880	5,581,880
2018	500,000	274,050	774,050
2019	400,000	261,000	661,000
2020	400,000	250,560	650,560
2021-2025	2,500,000	1,070,100	3,570,100
2026-2030	3,100,000	725,580	3,825,580
2031-2035	3,600,000	287,100	3,887,100
Total	\$ 16,200,000	\$ 3,442,590	\$ 19,642,590

Loans Payable – Component Unit. The Foundation borrowed \$5,000,000 to assist a related entity to acquire real estate in Naples, Florida. The line of credit bears interest at 65 percent of the bank’s prime rate minus 50 basis points (1.7875 percent at June 30, 2015). Principal payments are made when donations are received for this project. This line of credit was renewed and reduced to \$4,000,000 in 2009. On June 30, 2015, the outstanding balance of this line of credit was \$4,000,000. The interest is due quarterly, with the principal due at maturity. The Foundation has pledged the \$5,000,000 loan receivable as collateral for the line of credit. In addition, the related party has guaranteed repayment of the line of credit.

On July 27, 2007, the Foundation secured a \$3,000,000 5-year loan from Northern Trust Bank at a fixed rate of 4.28 percent to purchase the Marine Science and Environmental Education Center property. On December 15, 2012, the Foundation entered into a 5-year variable interest rate loan which includes

an annual principal payment of \$150,000. This loan bears interest at 65 percent of prime rate (2.11 percent at June 30, 2015) which is payable quarterly.

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Loans Payable	\$ 6,700,000	\$ -	\$ 150,000	\$ 6,550,000	\$ 150,000

Debt service requirements of the loans are as follows:

<u>Year Ending June 30</u>	<u>Mortgage Note</u>		<u>Line of Credit</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 150,000	\$ 53,869	\$ -	\$ 71,500	\$ 150,000	\$ 125,369
2017	150,000	50,700	4,000,000	17,875	4,150,000	68,575
2018	2,250,000	23,766	-	-	2,250,000	23,766
Total	\$2,550,000	\$ 128,335	\$4,000,000	\$ 89,375	\$6,550,000	\$ 217,710

Capital Leases Payable. The University entered into an energy savings contract in July 2003 and acquired equipment under a capital lease. The stated interest rate is 4.3 percent. In August 2011, the University entered into a capital lease for network storage equipment. The stated interest rate is 1.8 percent. Principal and interest requirements on the capital leases outstanding as of June 30, 2015, are presented in the following table:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 150,855
Total Minimum Payments	150,855
Less, Amount Representing Interest	2,714
Present Value of Minimum Payments	\$ 148,141

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2015, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$9,197,049. The current portion of the compensated absences liability, \$679,713, is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last 3 years calculated as a historical percentage of those years' total compensated absences liability.

Other Postemployment Benefits Payable. The University follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits administered by the State Group Health Insurance Program.

Plan Description. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer defined benefit plan (Plan). The University subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the Plan information is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The State has not advance-funded other postemployment benefit (OPEB) costs or the net OPEB obligation. Premiums necessary for funding the Plan each year on a pay-as-you-go basis are established by the Governor's recommended budget and the General Appropriations Act. For the 2014-15 fiscal year, 33 retirees received postemployment healthcare benefits. The University provided required contributions of \$123,000 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$320,000, which represents 0.40 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the University's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the University's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 2,306,000
Amortization of Unfunded Actuarial Accrued Liability	923,000
Interest on Normal Cost and Amortization	129,000
Annual Required Contribution	3,358,000
Interest on Net OPEB Obligation	652,000
Adjustment to Annual Required Contribution	(565,000)
Annual OPEB Cost (Expense)	3,445,000
Contribution Toward the OPEB Cost	(123,000)
Increase in Net OPEB Obligation	3,322,000
Net OPEB Obligation, Beginning of Year	16,310,000
Net OPEB Obligation, End of Year	<u>\$ 19,632,000</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2015, and for the two 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	\$ 3,672,000	4.4%	12,650,000
2013-14	3,779,000	3.1%	16,310,000
2014-15	3,445,000	3.6%	19,632,000

Funded Status and Funding Progress. As of July 1, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$28,949,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$28,949,000, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$79,878,282 for the 2014-15 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 36.2 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and

assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The University's OPEB actuarial valuation as of July 1, 2013, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2015, and the University's 2014-15 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year and an inflation rate of 3 percent. Initial healthcare cost trend rates were 7.21 percent, 7.89 percent, and 7.59 percent for the first 3 years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 6.95 percent, 7.64 percent, and 7.75 percent for the first 3 years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates both grade down to an ultimate rate of 5 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2015, was 22 years.

Net Pension Liability. As a participating employer in the Florida Retirement System, the University recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2015, the University's proportionate share of the net pension liabilities totaled \$18,232,722. Note 12 includes a complete discussion of defined benefit pension plans.

12. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class (SMSC) employed by the State and faculty and specified employees in the State university system.

Essentially all regular employees of the University are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual

financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' Web site (www.dms.myflorida.com).

The University's pension expense totaled \$2,337,421 for the 2014-15 fiscal year for both the FRS and HIS Pension Plans.

FRS Pension Plan

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

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

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost of living adjustments to eligible participants.

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

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

survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
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</u> (1)
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 University's contributions to the plan totaled \$3,290,334 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the University reported a liability of \$7,355,759 for its

proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The University's proportionate share of the net pension liability was based on the University's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the University's proportionate share was 0.120557144 percent, which was an increase of 0.029627456 from its proportionate share measured as of June 30, 2013.

For the year ended June 30, 2015, the University recognized pension expense of \$1,504,705. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 455,197
Change of assumptions	1,273,895	-
Net difference between projected and actual earnings on pension plan investments	-	12,270,626
Changes in proportion and differences between University contributions and proportionate share of contributions	4,290,648	-
University contributions subsequent to the measurement date	3,290,334	-
Total	<u>\$ 8,854,877</u>	<u>\$ 12,725,823</u>

The deferred outflows of resources related to pensions totaling \$3,290,334, resulting from University contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ (2,103,629)
2017	(2,103,629)
2018	(2,103,629)
2019	(2,103,629)
2020	964,028
Thereafter	289,208
Total	<u>\$ (7,161,280)</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:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
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	100.00%			
Assumed inflation - Mean		2.60%		2.00%

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

Discount Rate. The discount rate used to measure the total pension liability was 7.65 percent. The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
University's proportionate share of the net pension liability	\$ 31,461,557	\$ 7,355,759	\$ (12,695,666)

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 University reported a payable of \$250,877 for the outstanding amount of contributions in 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. 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 University contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The University's contributions to the HIS Plan totaled \$482,908 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 University reported a liability of \$10,876,963 for its proportionate share of the net pension liability. The current portion of the net pension liability is the University's proportionate share of benefit payments expected to be paid within one year, net of the University's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2013, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The University's proportionate share of the net pension liability was based on the University's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the University's proportionate share was 0.116328119 percent, which was an increase of 0.00640178 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the University recognized pension expense of \$832,716. In addition, the University reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 387,046
Net difference between projected and actual earnings on HIS pension plan investments	5,221
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	479,948
College contributions subsequent to the measurement date	482,908
Total	\$ 1,355,123

The deferred outflows of resources totaling \$482,908 was related to pensions resulting from University contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 141,143
2017	141,143
2018	141,143
2019	141,143
2020	139,838
Thereafter	167,805
Total	\$ 872,215

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 University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 4.29 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.29 percent) or 1 percentage point higher (5.29 percent) than the current rate:

	<u>1% Decrease (3.29%)</u>	<u>Current Discount Rate (4.29%)</u>	<u>1% Increase (5.29%)</u>
University's proportionate share of the net pension liability	\$ 12,371,665	\$ 10,876,963	\$ 9,629,315

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 Comprehensive Annual Financial Report.

Payables to the Pension Plan. At June 30, 2015, the University reported a payable of \$30,579 for the outstanding amount of contributions to the pension plan required for the fiscal year ended June 30, 2015.

13. Retirement Plans – Defined Contribution Pension Plans

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan by. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the Investment Plan member accounts during the 2014-15 fiscal year were as follows:

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

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5 year period, the employee will regain control over their account. If the employee does not return within the 5 year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the University.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The University's Investment Plan pension expense totaled \$716,821 for the fiscal year ended June 30, 2015.

State University System Optional Retirement Program. Section 121.35, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible university instructors and administrators. The Program is designed to aid State universities in recruiting employees by offering more portability to employees not expected to remain in FRS for 8 or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes 5.14 percent of the participant's salary to the participant's account, 2.54 percent to cover the unfunded actuarial liability of the FRS pension plan, 0.01 percent to cover administrative costs, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The University's contributions to the Program totaled \$3,175,803, which includes the unfunded actuarial liability portion, and employee contributions totaled \$2,146,915 for the 2014-15 fiscal year.

14. Construction Commitments

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

Project Description	Total Commitment	Completed to Date	Balance Committed
Emergent Technologies/iHub	\$ 12,004,330	\$ 4,894,679	\$ 7,109,651
Main Entry Enhancements	1,095,110	747,597	347,513
South Village Recreation Center	5,352,787	255,294	5,097,493
University Relations Modular	1,142,576	28,081	1,114,495
Subtotal	19,594,803	5,925,651	13,669,152
Project Balances Under \$1 million	2,699,869	1,605,854	1,094,015
Total	\$ 22,294,672	\$ 7,531,505	\$ 14,763,167

15. Risk Management Programs

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2014-15 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$54 million for named windstorm and flood losses. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past 3 fiscal years.

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

16. Functional Distribution of Operating Expenses

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 62,361,768
Research	2,228,015
Public Services	7,128,894
Academic Support	15,454,125
Student Services	12,197,715
Institutional Support	22,849,050
Operation and Maintenance of Plant	10,996,973
Scholarships, Fellowships, and Waivers	16,203,080
Depreciation	14,305,307
Auxiliary Enterprises	33,649,945
Total Operating Expenses	\$ 197,374,872

17. Segment Information

A segment is defined as an identifiable activity (or grouping of activities) that has one or more bonds or other debt instruments outstanding with a revenue stream pledged in support of that debt. In addition, the activity's related revenues, expenses, gains, losses, assets, and liabilities are required to be accounted for separately. The following financial information for the University's Housing, Parking, and Student Services Center facilities represents identifiable activities for which one or more bonds are outstanding:

Condensed Statement of Net Position

	Housing Facility	Parking Facility	Student Services
Assets			
Current Assets	\$ 21,560,592	\$ 3,334,362	\$ 3,946,174
Capital Assets, Net	183,636,515	21,595,679	5,510,000
Other Noncurrent Assets	7,832,286	370,493	-
Total Assets	213,029,393	25,300,534	9,456,174
Liabilities			
Current Liabilities	10,518,264	905,275	338,313
Noncurrent Liabilities	185,162,351	19,692,960	5,100,000
Total Liabilities	195,680,615	20,598,235	5,438,313
Net Position			
Net Investment in Capital Assets	433,459	(64,435)	200,000
Restricted - Expendable	10,832,285	370,493	-
Unrestricted	6,083,034	4,396,241	3,817,861
Total Net Position	\$ 17,348,778	\$ 4,702,299	\$ 4,017,861

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

	Housing Facility	Parking Facility	Student Services
Operating Revenues	\$ 29,534,229	\$ 3,360,923	\$ 1,895,580
Depreciation Expense	(4,071,000)	(503,902)	(120,000)
Other Operating Expenses	(19,293,840)	(1,665,906)	(878,089)
Operating Income	6,169,389	1,191,115	897,491
Nonoperating Revenues (Expenses):			
Nonoperating Revenue	261,702	42,297	52,641
Other Nonoperating Expense	(5,036,699)	(555,918)	(654,833)
Net Nonoperating Expenses	(4,774,997)	(513,621)	(602,192)
Increase in Net Position	1,394,392	677,494	295,299
Net Position, Beginning of Year	15,954,386	4,024,805	3,722,562
Net Position, End of Year	\$ 17,348,778	\$ 4,702,299	\$ 4,017,861

Condensed Statement of Cash Flows

	<u>Housing Facility</u>	<u>Parking Facility</u>	<u>Student Services</u>
Net Cash Provided (Used) by:			
Operating Activities	\$ 12,039,631	\$ 1,711,669	\$ 1,054,332
Noncapital Financing Activities	(5,144,963)	(555,142)	(654,069)
Capital and Related Financing Activities	(9,581,458)	(620,000)	(100,000)
Investing Activities	404,576	33,966	(300,263)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,282,214)	570,493	-
Cash and Cash Equivalents, Beginning of Year	2,282,214	-	-
Cash and Cash Equivalents, End of Year	\$ -	\$ 570,493	\$ -

18. Blended Component Unit

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

Condensed Statement of Net Position

	<u>FGCU Financing Corporation</u>	<u>University</u>	<u>Eliminations</u>	<u>Total</u>
Assets:				
Current Assets	\$ 28,442,942	\$ 63,909,682	\$ (2,574,262)	\$ 89,778,362
Capital Assets, Net	5,710,927	527,161,830	-	532,872,757
Other Noncurrent Assets	224,539,148	319,974	(207,588,908)	17,270,214
Total Assets	258,693,017	591,391,486	(210,163,170)	639,921,333
Deferred Outflows of Resources	-	10,210,000	-	10,210,000
Liabilities:				
Current Liabilities	10,340,099	12,932,978	(22,945)	23,250,132
Noncurrent Liabilities	214,955,311	256,157,140	(210,140,225)	260,972,226
Total Liabilities	225,295,410	269,090,118	(210,163,170)	284,222,358
Deferred Inflows of Resources	-	12,725,823	-	12,725,823
Net Position:				
Net Investment in Capital Assets	-	312,019,306	-	312,019,306
Restricted - Expendable	11,202,778	17,428,452	-	28,631,230
Unrestricted	22,194,829	(9,662,213)	-	12,532,616
Total Net Position	\$ 33,397,607	\$ 319,785,545	\$ 0	\$ 353,183,152

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

	FGCU			Total
	Financing Corporation	University	Eliminations	
Operating Revenues	\$ 19,620,542	\$ 89,684,366	\$ -	\$ 109,304,908
Depreciation Expense	-	(14,305,307)	-	(14,305,307)
Other Operating Expenses	(15,482,104)	(177,240,767)	9,653,306	(183,069,565)
Operating Income (Loss)	4,138,438	(101,861,708)	9,653,306	(88,069,964)
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	463,363	95,902,492	-	96,365,855
Interest Expense	-	33,960	(9,653,306)	(9,619,346)
Other Nonoperating Expense	(5,562,415)	5,562,415	-	-
Net Nonoperating Revenues (Expenses)	(5,099,052)	101,498,867	(9,653,306)	86,746,509
Other Revenues, Expenses, Gains, and Losses	-	10,970,351	-	10,970,351
Increase (Decrease) in Net Position	(960,614)	10,607,510	-	9,646,896
Net Position, Beginning of Year	34,358,221	331,362,400	-	365,720,621
Adjustment to Beginning Net Position (1)	-	(22,184,365)	-	(22,184,365)
Net Position, Beginning of Year, as Restated	34,358,221	309,178,035	-	343,536,256
Net Position, End of Year	\$ 33,397,607	\$ 319,785,545	\$ -	\$ 353,183,152

Note: (1) Adjustment to beginning net position due to the implementation of GASB Statement No. 68, which is a change in accounting principle that requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liability of the defined benefit pension plans. See Note 3 to the financial statements.

Condensed Statement of Cash Flows

	FGCU			Total
	Financing Corporation	University	Eliminations	
Net Cash Provided (Used) by:				
Operating Activities	\$ 10,795,701	\$ (86,717,595)	\$ 8,131,597	\$ (67,790,297)
Noncapital Financing Activities	(2,363,170)	97,915,921	-	95,552,751
Capital and Related Financing Activities	(10,301,458)	(9,201,974)	(8,131,597)	(27,635,029)
Investing Activities	138,278	(2,600,952)	-	(2,462,674)
Net Decrease in Cash and Cash Equivalents	(1,730,649)	(604,600)	-	(2,335,249)
Cash and Cash Equivalents, Beginning of Year	2,317,019	618,982	-	2,936,001
Cash and Cash Equivalents, End of Year	\$ 586,370	\$ 14,382	\$ -	\$ 600,752

19. Related Party Transactions

University and Blended Component Unit.

As part of a Master Ground and Operating Lease Agreement (see Note 7), the University operates and pays all operating costs of the facilities leased from the Florida Gulf Coast University Financing Corporation (Corporation) from the gross rental income from the respective student residences and parking facilities. The net rental income is then paid to the Corporation by the University in arrears based on collections. The University provides office space and related occupancy costs, such as, utilities and

use of other office machines as well as accounting and record keeping services at no cost to the Corporation.

Discretely Presented Component Unit.

On March 15, 2006, the Florida Gulf Coast University Foundation, Inc. (Foundation), loaned \$5 million to the Corporation to purchase a 2-acre lot in Naples as the future location of the University's Naples Center (Naples Center). The Naples Center will offer for-credit classes and house a 300 seat auditorium. The land purchase was deemed necessary to aid in the Foundation's fundraising efforts for construction of the Naples Center. The Corporation is responsible for the interest due on the balance not raised by donations.

The Foundation maintains a portion of its investments and had two outstanding loans with a financial institution which a Foundation board member was an officer during the fiscal year ended June 30, 2015. The Foundation investments managed by the financial institution at June 30, 2015, totaled \$23,571,175. The Foundation had outstanding loans totaling \$6,550,000 with the financial institution at June 30, 2015, and paid \$280,314 in interest during the fiscal year ended June 30, 2015.

The Foundation maintains a portion of its fixed income investments with an investment firm of which a Foundation board member was an officer during the fiscal year ended June 30, 2015. The Foundation investments managed by the investment firm at June 30, 2015, totaled \$11,027,319.

The Foundation's operating bank account was with a financial institution that a Foundation board member was an officer of the financial institution during the fiscal year ending June 30, 2015. On June 30, 2015, the Foundation had \$11,203,668 on deposit with this financial institution.

On July 13, 2013, the University renewed the lease agreement with the Foundation for the use of waterfront property for the University's Vester Marine Science and Environmental Education Center. The monthly lease payment of \$32,000 covers the general operating and maintenance expenses incurred by the Foundation.

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	\$ -	\$ 17,315,000	\$ 17,315,000	0%	\$ 57,220,579	30.3%
7/1/2011	-	26,010,000	26,010,000	0%	66,215,314	39.3%
7/1/2013	-	28,949,000	28,949,000	0%	72,848,027	39.7%

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

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

	2014 (1)	2013 (1)
University's proportion of the FRS net pension liability	0.120557144%	0.090929688%
University's proportionate share of the FRS net pension liability	\$ 7,355,759	\$ 15,653,046
University's covered-employee payroll (2)	\$ 71,749,253	\$ 67,297,169
University's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	10.25%	23.26%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	96.09%	88.54%

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

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

Schedule of University Contributions – Florida Retirement System Pension Plan

	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 3,290,334	\$ 2,640,713
FRS contributions in relation to the contractually required contribution	(3,290,334)	(2,640,713)
FRS contribution deficiency (excess)	\$ -	\$ -
University's covered-employee payroll (2)	\$ 78,759,256	\$ 71,749,253
FRS contributions as a percentage of covered-employee payroll	4.18%	3.68%

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

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

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

	<u>2014 (1)</u>	<u>2013 (1)</u>
University's proportion of the HIS net pension liability	0.116328119%	0.109926339%
University's proportionate share of the HIS net pension liability	\$ 10,876,963	\$ 9,570,533
University's covered-employee payroll (2)	\$ 34,108,299	\$ 31,706,972
University's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	31.89%	30.18%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	0.99%	1.78%

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

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

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

	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 482,908	\$ 398,501
HIS contributions in relation to the contractually required HIS contribution	(482,908)	(398,501)
HIS contribution deficiency (excess)	\$ -	\$ -
University's covered-employee payroll (2)	\$ 37,462,263	\$ 34,108,299
HIS contributions as a percentage of covered-employee payroll	1.29%	1.17%

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 Benefit Plan

The July 1, 2013, unfunded actuarial accrued liability of \$28,949,000 was significantly higher than the July 1, 2011, liability of \$26,010,000 as a result of a lower than expected increases in retiree contributions rates, an implicit subsidy resulting from less than full cost of coverage now being paid by participants in four HMO plans, changes in demographic data and assumptions, and certain trend assumptions.

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

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 Gulf Coast University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated 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 University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control

that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS** is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



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