

**FLORIDA SOUTHWESTERN STATE  
COLLEGE**

For the Fiscal Year Ended  
June 30, 2016



Sherrill F. Norman, CPA  
Auditor General

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Tristan Chapman, Vice Chair from 9-22-15	Hendry
Sankey "Eddie" Webb, III, Chair to 9-21-15	Charlotte
Byron Donalds	Collier
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The team leader was Cesar A. Mayorga, and the audit was supervised by Deirdre F. Waigand, CPA.

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

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**FLORIDA SOUTHWESTERN STATE COLLEGE**  
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# SUMMARY

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## SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

## SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

## AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether Florida SouthWestern State College and its officers with administrative and stewardship responsibilities for College operations had:

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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2016. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the College are included in our report No. 2017-058.

## AUDIT METHODOLOGY

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

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Tallahassee, Florida 32399-1450



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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Florida SouthWestern State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Florida SouthWestern State College Financing Corporation, a blended component unit, which represent 14.3 percent, 35.3 percent, 4.5 percent, and 3.4 percent, respectively, of the assets, liabilities, net position, and revenues reported for Florida SouthWestern State College. In addition, we did not audit the financial statements of the discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit's columns. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended and discretely presented component units, is 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 other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida SouthWestern State College and of its discretely presented component unit as of June 30, 2016, 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.

### ***Other Matter***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of College Contributions – Florida Retirement System Pension Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of College Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors 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 dated February 24, 2017, on our consideration of the Florida SouthWestern State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Florida SouthWestern State College's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
February 24, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2016, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2016, and June 30, 2015, which includes its blended component unit Florida SouthWestern State College Financing Corporation for fiscal years ended March 31, 2016, and March 31, 2015.

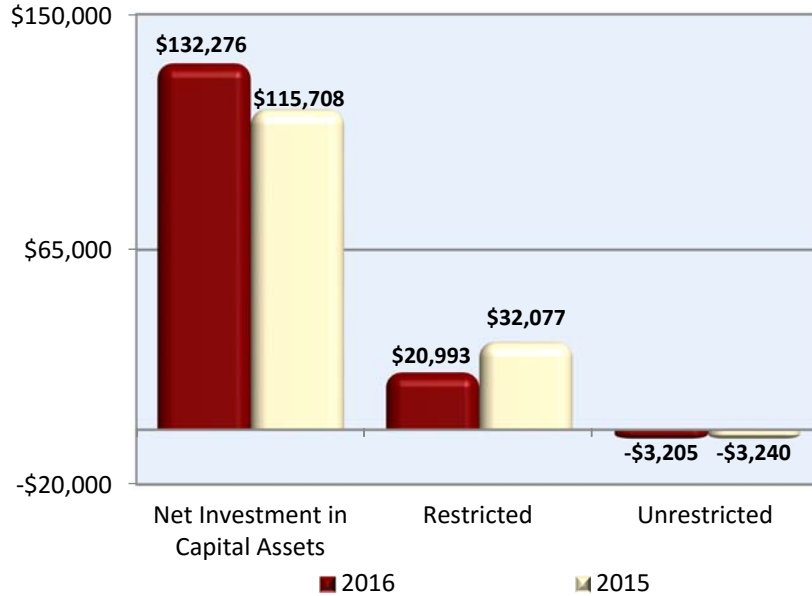
### **FINANCIAL HIGHLIGHTS**

The College's assets and deferred outflows of resources totaled \$224.2 million at June 30, 2016. This balance reflects a \$9 million, or 4.2 percent, increase as compared to the 2014-15 fiscal year, resulting from an increase in nondepreciable capital assets. Liabilities and deferred inflows of resources increased by \$3.5 million, or 4.9 percent, totaling \$74.2 million at June 30, 2016. Additionally, the College reported deferred outflows of resources totaling \$6.8 million and deferred inflows of resources totaling \$2.5 million related to the net pension liability at June 30, 2016. As a result, the College's net position increased by \$5.5 million, resulting in a year-end balance of \$150.1 million.

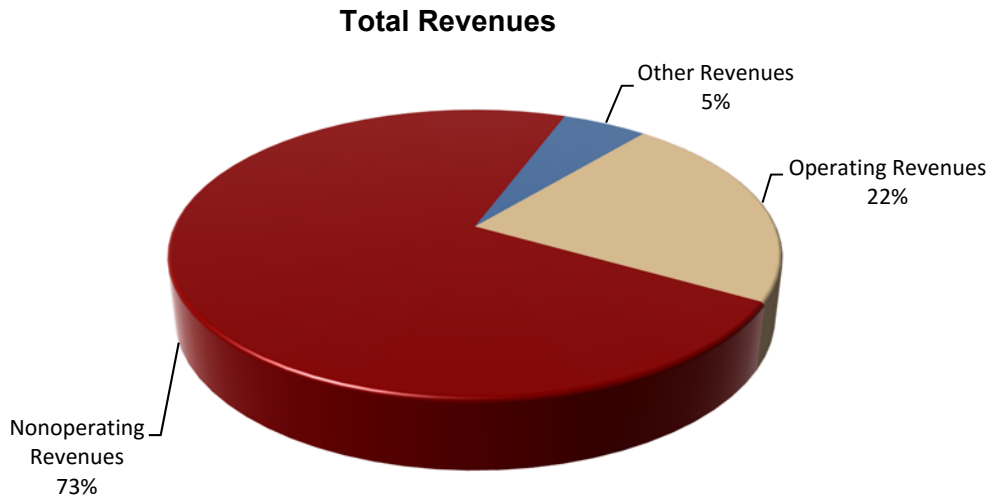
The College's operating revenues totaled \$21.6 million for the 2015-16 fiscal year, representing a 15.4 percent decrease compared to the 2014-15 fiscal year due mainly to a decrease in net student tuition and fees. Operating expenses totaled \$92 million for the 2015-16 fiscal year, representing a decrease of 5.9 percent as compared to the 2014-15 fiscal year due mainly to a reduction in scholarship and waivers.

Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2016, and June 30, 2015, is shown in the following graph:

**Net Position**  
(In Thousands)



The following chart provides a graphical presentation of College revenues by category for the 2015-16 fiscal year:



**OVERVIEW OF FINANCIAL STATEMENTS**

Pursuant to GASB Statement No. 35, the College’s financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. These financial statements, and notes thereto, encompass the College and its component units. These component units include: Florida SouthWestern State College Financing Corporation (Financing Corporation) and the Florida SouthWestern State College Foundation, Inc. (Foundation). Based on the application of the criteria for determining component units,

the Financing Corporation is included with the College reporting entity as a blended component unit, and the Foundation is included with the College reporting entity as a discretely presented component unit.

Information regarding these component units, including a summary of the blended component unit's separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the College, excluding the discretely presented component unit. MD&A information for the discretely presented component unit is included in their separately issued audit report.

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

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

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

#### **Condensed Statement of Net Position at June 30** (In Thousands)

	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Current Assets	\$ 31,455	\$ 35,627
Capital Assets, Net	166,232	150,931
Other Noncurrent Assets	19,792	23,357
<b>Total Assets</b>	<b>217,479</b>	<b>209,915</b>
<b>Deferred Outflows of Resources</b>	<b>6,754</b>	<b>5,312</b>
<b>Liabilities</b>		
Current Liabilities	9,589	6,802
Noncurrent Liabilities	62,035	56,504
<b>Total Liabilities</b>	<b>71,624</b>	<b>63,306</b>
<b>Deferred Inflows of Resources</b>	<b>2,545</b>	<b>7,376</b>
<b>Net Position</b>		
Net Investment in Capital Assets	132,276	115,708
Restricted	20,993	32,077
Unrestricted	(3,205)	(3,240)
<b>Total Net Position</b>	<b>\$ 150,064</b>	<b>\$ 144,545</b>

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

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

The following summarizes the College's activity for the respective fiscal years ended:

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

	<b>2015-16</b>	<b>2014-15</b>
Operating Revenues	21,567	25,488
Less, Operating Expenses	91,985	97,793
<b>Operating Loss</b>	<b>(70,418)</b>	<b>(72,305)</b>
Net Nonoperating Revenues	65,097	65,701
<b>Income (Loss) Before Other Revenues and Expenses</b>	<b>(5,321)</b>	<b>(6,604)</b>
Other Revenues and Expenses	10,840	11,764
<b>Net Increase In Net Position</b>	<b>5,519</b>	<b>5,160</b>
Net Position, Beginning of Year	144,545	157,462
Adjustment to Beginning Net Position (1)	-	(18,077)
<b>Net Position, Beginning of Year, as Restated</b>	<b>144,545</b>	<b>139,385</b>
<b>Net Position, End of Year</b>	<b>\$ 150,064</b>	<b>\$ 144,545</b>

Note: (1) Adjustment to beginning net position is 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 employer's proportionate share of the net pension liability of the defined benefit pension plans.

## **Operating Revenues**

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

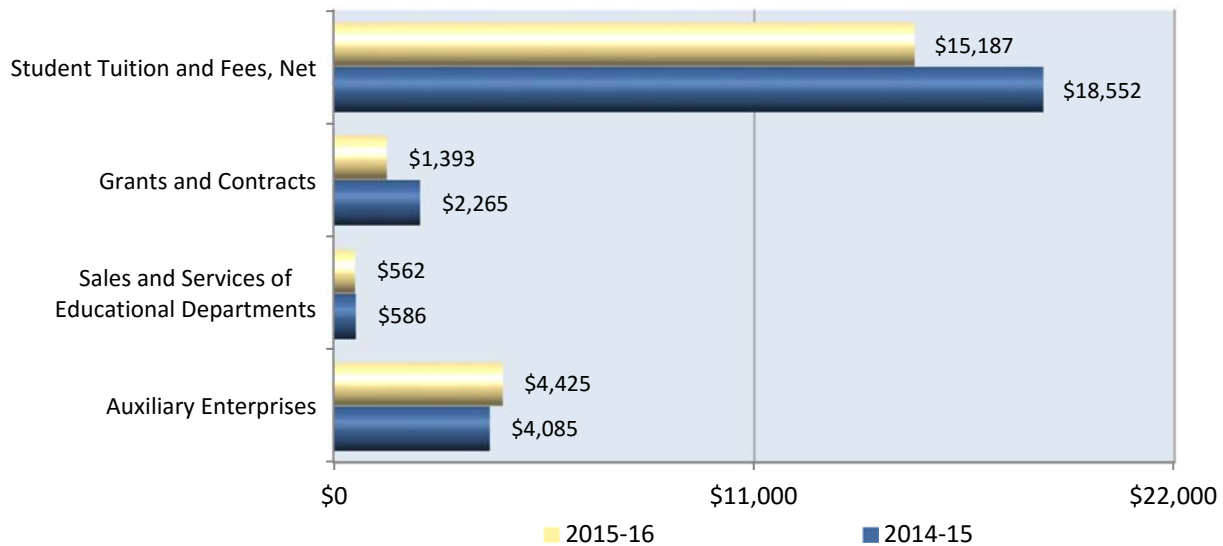
The following summarizes the operating revenues for the College by source that were used to fund operating activities for the 2015-16 and 2014-15 fiscal years:

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

	<b>2015-16</b>	<b>2014-15</b>
Student Tuition and Fees, Net	\$ 15,187	\$ 18,552
Grants and Contracts	1,393	2,265
Sales and Services of Educational Departments	562	586
Auxiliary Enterprises	4,425	4,085
<b>Total Operating Revenues</b>	<b>\$ 21,567</b>	<b>\$ 25,488</b>

The following chart presents the College's operating revenues for the 2015-16 and 2014-15 fiscal years:

**Operating Revenues  
(In Thousands)**



College operating revenue decreased by 3.9 million primarily due to a decrease in net student tuition and fees as a result of an increased scholarship allowance due to increased loan awards.

**Operating Expenses**

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

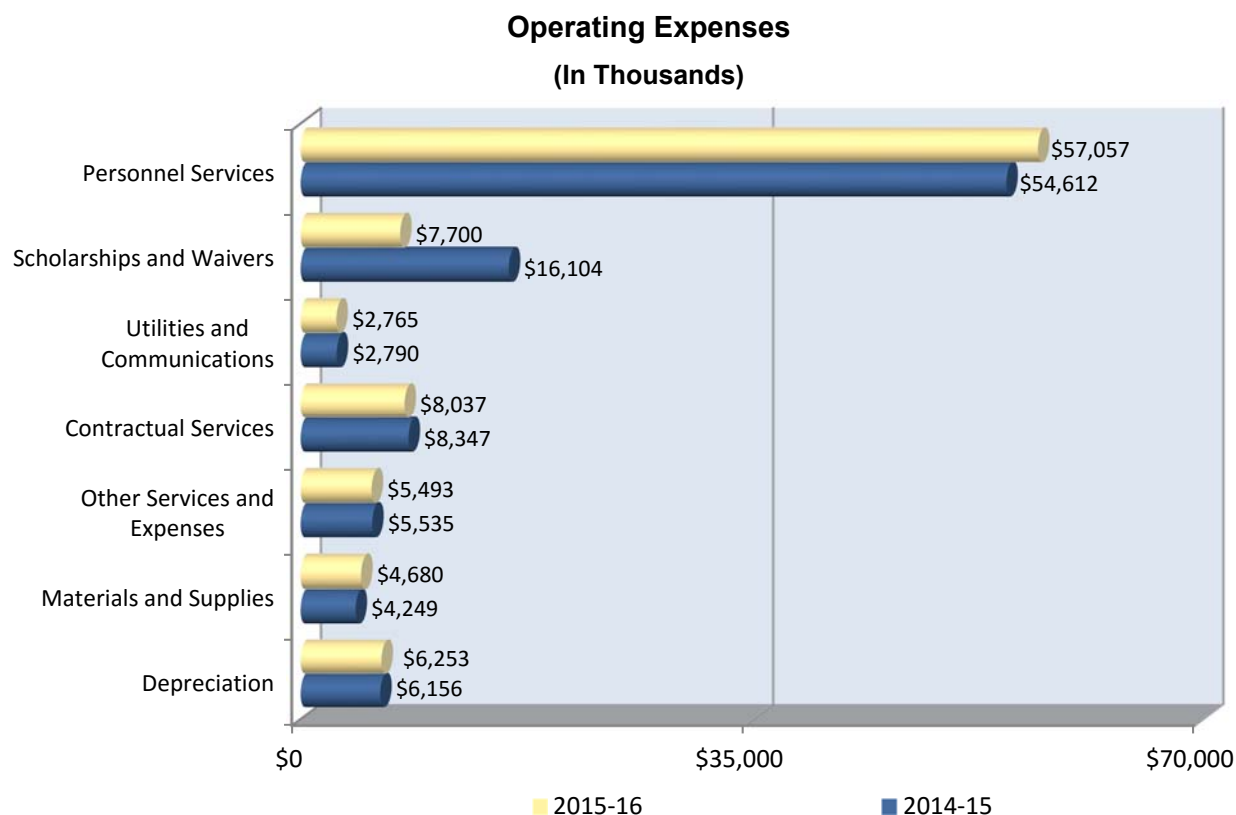
The following summarizes operating expenses by natural classification for the 2015-16 and 2014-15 fiscal years:

## Operating Expenses For the Fiscal Years

(In Thousands)

	2015-16	2014-15
Personnel Services	\$ 57,057	\$ 54,612
Scholarships and Waivers	7,700	16,104
Utilities and Communications	2,765	2,790
Contractual Services	8,037	8,347
Other Services and Expenses	5,493	5,535
Materials and Supplies	4,680	4,249
Depreciation	6,253	6,156
<b>Total Operating Expenses</b>	<b>\$ 91,985</b>	<b>\$ 97,793</b>

The following chart presents the College's operating expenses for the 2015-16 and 2014-15 fiscal years:



The operating expenses for the 2015-16 fiscal year were \$92 million, a decrease of \$5.8 million compared to the 2014-15 fiscal year. Significant changes to operating expenses were the result of a decrease in scholarships and waivers as Pell and Supplemental Educational Opportunity Grant decreased.

### **Nonoperating Revenues and Expenses**

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital

financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2015-16 and 2014-15 fiscal years:

**Nonoperating Revenues (Expenses)  
For the Fiscal Years**

(In Thousands)

	2015-16	2014-15
State Noncapital Appropriations	\$ 36,265	\$ 35,610
Federal and State Student Financial Aid	23,944	27,040
Gifts and Grants	6,802	5,830
Investment Income	638	550
Other Nonoperating Revenues	708	160
Loss on Disposal of Capital Assets	(1)	
Interest on Capital Asset-Related Debt	(1,511)	(1,536)
Other Nonoperating Expenses	(1,748)	(1,953)
<b>Net Nonoperating Revenues</b>	<b>\$ 65,097</b>	<b>\$ 65,701</b>

Changes in nonoperating revenues were primarily due to decreases in Pell grants and Federal Supplemental Educational Opportunity Grants.

**Other Revenues and Expenses**

This category is mainly composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues, expenses, gains, or losses for the 2015-16 and 2014-15 fiscal years:

**Other Revenues and Expenses  
For the Fiscal Years**

(In Thousands)

	2015-16	2014-15
State Capital Appropriations	\$ 997	\$ 7,537
Capital Grants, Contracts, Gifts, and Fees	10,043	3,678
Other Revenues (Expenses)	(200)	549
<b>Total</b>	<b>\$ 10,840</b>	<b>\$ 11,764</b>

State capital appropriations decreased by \$6.5 million due to on-going decreased State funding. Additionally, capital grants, contracts, gifts, and fees increased \$6.4 million primarily due to an increase in gifts and grants of \$6.6 million, or 112.8 percent, due to private donations to assist with construction of the new arena.

**The Statement of Cash Flows**

The statement of cash flows provides information about the College's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the College's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the College. Cash flows from capital financing activities include all plant funds and

related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes the College's cash flows for the 2015-16 and 2014-15 fiscal years:

**Condensed Statement of Cash Flows  
For the Fiscal Years  
(In Thousands)**

	<u>2015-16</u>	<u>2014-15</u>
Cash Provided (Used) by:		
Operating Activities	\$ (62,625)	\$ (66,067)
Noncapital Financing Activities	65,960	68,194
Capital and Related Financing Activities	(6,222)	817
Investing Activities	<u>49</u>	<u>(5)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(2,838)</b>	<b>2,939</b>
Cash and Cash Equivalents, Beginning of Year	<u>25,305</u>	<u>22,366</u>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 22,467</u></b>	<b><u>\$ 25,305</u></b>

Major sources of funds came from State noncapital appropriations (\$36.3 million), Federal and State student financial aid (\$25.3 million), net student tuition and fees (\$16 million), and Federal Direct Student Loan program receipts (\$13.2 million). Major uses of funds were for payments to employees and for employee benefits (\$56 million), purchases of capital assets (\$20.2 million), payments to providers of goods and services (\$17.6 million), and disbursements to students for Federal Direct Student Loans (\$13.2 million).

The overall decrease in cash was \$2.8 million, or 11.2 percent under the previous fiscal year.

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

At June 30, 2016, the College had \$254.6 million in capital assets, less accumulated depreciation of \$88.4 million, for net capital assets of \$166.2 million. Depreciation charges for the current fiscal year totaled \$6.3 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

## Capital Assets, Net at June 30

(In Thousands)

	<u>2016</u>	<u>2015</u>
Land	\$ 3,080	\$ 3,080
Art Collections	523	503
Construction in Progress	20,901	2,814
Buildings	206,435	204,065
Other Structures and Improvements	13,827	13,613
Furniture, Machinery, and Equipment	9,866	9,866
Total Capital Assets, Net	254,632	233,941
Less, Accumulated Depreciation	<u>(88,400)</u>	<u>(83,010)</u>
<b>Capital Assets, Net</b>	<b><u>\$166,232</u></b>	<b><u>\$150,931</u></b>

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

### **Capital Expenses and Commitments**

Construction commitments through June 30, 2016, included the following projects: Lee Campus Student Activity Center for \$26.6 million, Lee Campus Student Activity Center Parking for \$2 million, Lee Campus Building H Renovation for \$6 million, and Hendry Glades Construction for \$1.1 million. The College's construction commitments at June 30, 2016, are as follows:

	<b><u>Amount</u></b> <b><u>(In Thousands)</u></b>
Total Committed	\$ 35,699
Completed to Date	<u>(20,901)</u>
<b>Balance Committed</b>	<b><u>\$ 14,798</u></b>

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

### **Debt Administration**

As of June 30, 2016, the College had \$37.7 million in outstanding bonds payable composed of Florida Department of Education Capital Improvement Revenue Bonds (Revenue Bonds) issued on behalf of the College with outstanding balances totaling \$12.3 million and Student Housing Qualified Bonds issued by the Florida SouthWestern State College Financing Corporation with outstanding balance of \$24 million. The Revenue Bonds mature serially and are secured by the College's capital improvement fees. The College also holds State Board of Education Capital Outlay Bonds with outstanding balances of \$1.4 million issued on behalf of the College. These bonds mature serially and are secured by the College's portion of the State assessed motor vehicle license tax. Proceeds from these bonds are to be used to construct and renovate College facilities. More detailed information about the College's long-term liabilities is presented in the notes to financial statements.

## ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the 2016-17 fiscal year. In addition, future funding will be tied to performance requirements, and it is anticipated that overall enrollment will be flat.

## REQUESTS FOR INFORMATION

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

# BASIC FINANCIAL STATEMENTS

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

June 30, 2016

	College	Component Unit
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 6,755,992	\$ 231,524
Restricted Cash and Cash Equivalents	4,242,090	6,236
Investments	6,323,079	935,835
Restricted Investments	4,653,856	-
Accounts Receivable, Net	4,017,631	377,115
Notes Receivable, Net	87,370	-
Due from Other Governmental Agencies	3,996,294	-
Prepaid Expenses	1,379,098	9,751
<b>Total Current Assets</b>	<b>31,455,410</b>	<b>1,560,461</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	11,469,208	-
Investments	6,437,917	2,143,635
Restricted Investments	1,884,822	43,712,294
Depreciable Capital Assets, Net	141,728,444	-
Nondepreciable Capital Assets	24,503,498	-
Other Assets	-	5,087,705
<b>Total Noncurrent Assets</b>	<b>186,023,889</b>	<b>50,943,634</b>
<b>TOTAL ASSETS</b>	<b>217,479,299</b>	<b>52,504,095</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Amounts Related to Pensions	5,934,235	-
Accumulated Decrease in Fair Value of Hedging Derivatives	820,164	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>6,754,399</b>	<b>-</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	4,246,655	184,674
Accrued Interest Payable	30,973	-
Salary and Payroll Taxes Payable	1,383,780	-
Retainage Payable	1,348,388	-
Unearned Revenue	317,363	2,697,918
Deposits Held for Others	130,295	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	1,454,073	-
Special Termination Benefits Payable	111,713	-
Compensated Absences Payable	165,361	-
Net Pension Liability	400,585	-
<b>Total Current Liabilities</b>	<b>9,589,186</b>	<b>2,882,592</b>

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

**June 30, 2016**

	<b>College</b>	<b>Component Unit</b>
<b>LIABILITIES (Continued)</b>		
Noncurrent Liabilities:		
Bonds Payable	36,288,632	-
Notes Payable	-	1,100,000
Derivative Instrument, Interest Rate Swap	873,167	-
Special Termination Benefits Payable	148,671	-
Compensated Absences Payable	4,275,795	-
Other Postemployment Benefits Payable	238,139	-
Net Pension Liability	20,210,856	-
<b>Total Noncurrent Liabilities</b>	<b>62,035,260</b>	<b>1,100,000</b>
<b>TOTAL LIABILITIES</b>	<b>71,624,446</b>	<b>3,982,592</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Amounts Related to Pensions	2,545,513	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>2,545,513</b>	<b>-</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	132,276,026	-
Restricted:		
Nonexpendable:		
Endowment	709,083	19,132,930
Expendable:		
Grants and Loans	950,832	-
Scholarships	1,243,327	25,854,814
Capital Projects	16,284,025	-
Debt Service	1,806,081	-
Unrestricted	(3,205,635)	3,533,759
<b>TOTAL NET POSITION</b>	<b>\$ 150,063,739</b>	<b>\$ 48,521,503</b>

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

**Florida SouthWestern State College**  
**A Component Unit of the State of Florida**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2016**

	<b>College</b>	<b>Component Unit</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$21,094,474	\$ 15,186,524	\$ -
Federal Grants and Contracts	1,119,308	-
Nongovernmental Grants and Contracts	274,053	2,465,097
Sales and Services of Educational Departments	562,340	-
Auxiliary Enterprises	4,424,551	-
Other Operating Revenues	-	26,000
<b>Total Operating Revenues</b>	<b>21,566,776</b>	<b>2,491,097</b>
<b>EXPENSES</b>		
Operating Expenses:		
Personnel Services	57,056,891	-
Scholarships and Waivers	7,700,239	1,422,737
Utilities and Communications	2,764,524	-
Contractual Services	8,036,553	784,760
Other Services and Expenses	5,493,297	1,045,504
Materials and Supplies	4,680,145	-
Depreciation	6,253,106	-
<b>Total Operating Expenses</b>	<b>91,984,755</b>	<b>3,253,001</b>
<b>Operating Loss</b>	<b>(70,417,979)</b>	<b>(761,904)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Noncapital Appropriations	36,264,664	-
Federal and State Student Financial Aid	23,944,185	-
Gifts and Grants	6,802,384	-
Investment Income (Loss)	638,171	(1,112,030)
Other Nonoperating Revenues	708,530	-
Loss on Disposal of Capital Assets	(1,739)	-
Interest on Capital Asset-Related Debt	(1,511,099)	-
Other Nonoperating Expenses	(1,748,221)	-
<b>Net Nonoperating Revenues (Expenses)</b>	<b>65,096,875</b>	<b>(1,112,030)</b>
<b>Income (Loss) Before Other Revenues and Expenses</b>	<b>(5,321,104)</b>	<b>(1,873,934)</b>
State Capital Appropriations	997,226	-
Capital Grants, Contracts, Gifts, and Fees	10,042,903	-
Other Expenses	(200,000)	-
Increases in Permanent Endowment	-	271,920
<b>Total Other Revenues</b>	<b>10,840,129</b>	<b>271,920</b>
<b>Increase (Decrease) in Net Position</b>	<b>5,519,025</b>	<b>(1,602,014)</b>
<b>Net Position, Beginning of Year</b>	<b>144,544,714</b>	<b>50,123,517</b>
<b>Net Position, End of Year</b>	<b>\$ 150,063,739</b>	<b>\$ 48,521,503</b>

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

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

**For the Fiscal Year Ended June 30, 2016**

	<b>College</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student Tuition and Fees, Net	\$ 15,996,719
Grants and Contracts	1,157,018
Payments to Suppliers	(17,634,998)
Payments for Utilities and Communications	(2,757,484)
Payments to Employees	(44,728,978)
Payments for Employee Benefits	(11,303,649)
Payments for Scholarships	(7,700,239)
Loans Issued to Students	(87,214)
Collection on Loans to Students	170,318
Auxiliary Enterprises	3,466,495
Sales and Services of Educational Departments	562,340
Other Receipts	235,025
	<b>(62,624,647)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Noncapital Appropriations	36,264,664
Federal and State Student Financial Aid	25,270,530
Federal Direct Loan Program Receipts	13,180,513
Federal Direct Loan Program Disbursements	(13,180,513)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	5,464,244
Other Nonoperating Disbursements	(1,039,691)
	<b>65,959,747</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
State Capital Appropriations	7,012,898
Capital Grants and Gifts	9,849,903
Proceeds from Sale of Capital Assets	2,693
Purchases of Capital Assets	(20,228,429)
Principal Paid on Capital Debt and Leases	(1,351,403)
Interest Paid on Capital Debt and Leases	(1,508,063)
	<b>(6,222,401)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	4,638,722
Purchases of Investments	(5,215,218)
Investment Income	625,595
	<b>49,099</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(2,838,202)</b>
Cash and Cash Equivalents, Beginning of Year	25,305,492
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 22,467,290</b>

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

**For the Fiscal Year Ended June 30, 2016**

	<b>College</b>
<b>RECONCILIATION OF OPERATING LOSS</b>	
<b>TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (70,417,979)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	6,253,106
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	(774,547)
Notes Receivable	83,104
Prepaid Expenses	(47,134)
Due From Other Government Agencies	206,088
Salaries and Payroll Taxes	(113,539)
Accounts Payable	1,539,942
Unearned Revenue	(89,242)
Deposits Held for Others	(28,085)
Special Termination Benefits Payable	72,297
Compensated Absences Payable	483,936
Other Postemployment Benefits Payable	23,679
Net Pension Liability	6,864,275
Deferred Outflows of Resources Related to Pensions	(1,849,758)
Deferred Inflows of Resources Related to Pensions	(4,830,790)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (62,624,647)</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES</b>	
Unrealized and realized gains on investments were recognized as an increase 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.	\$ 12,576
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.	\$ (1,739)

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

# **NOTES TO FINANCIAL STATEMENTS**

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## **1. Summary of Significant Accounting Policies**

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

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

**Blended Component Unit.** Based on the application of the criteria for determining component units, the Florida SouthWestern State College Financing Corporation (Financing Corporation), a legally separate entity, is included within the College's reporting entity as a blended component unit. The Financing Corporation is a not-for-profit Florida corporation under the provisions of Chapter 617, Florida Statutes, and is also a direct-support organization, as defined in Section 1004.70 Florida Statutes. The Financing Corporation is managed independently, outside the College's budgeting process, and its powers generally are vested in a governing board pursuant to various State Statutes. The Financing Corporation was established to finance and/or operate parking, student housing, and other capital projects for the exclusive benefit of the College and its students. Due to the substantial economic relationship between the Financing Corporation and the College, the financial activities of the Financing Corporation are included in the College's financial statements. The financial data reported on the accompanying financial statements was derived from the Financing Corporation's audited financial statements for the fiscal year ended March 31, 2016.

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

**Discretely Presented Component Unit.** Based on the application of the criteria for determining component units, the Florida SouthWestern State College Foundation, Inc. (Foundation), a legally separate entity, is included within the College's reporting entity as a discretely presented component unit and is governed by a separate board.

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College's administrative offices. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended March 31, 2016.

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

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

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

The College's component units use the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follows GASB standards of accounting and financial reporting.

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

The College's principal operating activity is instruction. Operating revenues and expenses generally include all fiscal transactions directly related to instruction as well as administration, academic support, student services, physical plant operations, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is the College's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

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

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

**Cash and Cash Equivalents.** The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, cash invested overnight in a money market mutual fund, and cash placed with State Treasury Special Purpose Investment Account (SPIA) and State Board of Administration (SBA) Florida PRIME investment pools. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less to be cash equivalents. Under this definition, the College considers amounts invested in the State Treasury Special Purpose Investment Account (SPIA) and State Board of Administration (SBA) Florida PRIME investment pools to be cash equivalents.

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

At June 30, 2016, the College reported as cash equivalents at fair value \$43,512 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities (Level 3 inputs, as discussed in Note 4.). Pooled investments with the State Treasury are not registered

with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.61 years and fair value factor of 1.0143 at June 30, 2016. Participants contribute to the Treasury Pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2016, the College reported as cash equivalents \$168,848.55 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 39 days as of June 30, 2016. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost. Section 218.409(8)(a), Florida Statutes, states that "the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days." As of June 30, 2016, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

**Capital Assets.** College capital assets consist of land; art collections; construction in progress; buildings; other structures and improvements; and furniture, machinery, and equipment. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays

that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

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

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

**Pensions.** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS's and the HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

## **2. Reporting Changes**

The College implemented GASB Statement No.72, *Fair Value Measurement and Application*, which requires the College to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value.

The College implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

## **3. Deficit Net Position in Individual Funds**

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

	<u>Net Position</u>
College:	
Current Funds - Unrestricted	\$ (9,518,209)
Auxiliary Funds	954,086
	<u>(8,564,123)</u>
Total College Net Position	
Blended Component Unit - Financing Corporation	5,358,488
	<u>5,358,488</u>
<b>Total</b>	<u>\$ (3,205,635)</u>

#### 4. Investments

The Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the State Board of Administration (SBA); Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; and other investments approved by the Board of Trustees as authorized by law. State Board of Education (SBE) Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments.

Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

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

All of the College's recurring fair value measurements as of June 30, 2016 are valued using significant observable inputs (Level 2 inputs), with the exception of repurchase agreements which are valued using significant unobservable inputs (Level 3 inputs).

The College's investments at June 30, 2016, are reported as follows:

	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level</b>				
State Board of Administration Debt Service Accounts	\$ 1,175,739	\$ 1,175,739	\$ -	\$ -
State and Municipal Bonds	1,495,049	-	1,495,049	-
Obligations of United States Government Agencies and Instrumentalities	8,133,447	-	8,133,447	-
Foreign Obligations	380,086	-	380,086	-
Repurchase Agreements	1,292,750	-	-	1,292,750
Collateralized Mortgage Obligations	1,036,343	-	1,036,343	-
Short-Term Investments	52,443	-	52,443	-
Corporate Bonds	5,024,734	-	5,024,734	-
Mutual Funds	709,083	-	709,083	-
<b>Total College Investments</b>	<b>\$ 19,299,674</b>	<b>\$ 1,175,739</b>	<b>\$ 16,831,185</b>	<b>\$ 1,292,750</b>

### **State Board of Administration Debt Service Accounts**

The College reported investments totaling \$1,175,739 at June 30, 2016, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk and credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

### **Other Investments**

The College's other investments at June 30, 2016, totaling \$17,414,852 consisted of obligations of United States agencies and Instrumentalities of \$8,133,447, foreign obligations of \$380,086, State and municipal bonds of \$1,495,049, corporate bonds of \$5,024,734, short-term investments of \$52,443, repurchase agreements of \$1,292,750, and collateralized mortgage obligations of \$1,036,343 reported at fair value. The College also had investments at June 30, 2016, totaling \$709,083 that consisted of mutual funds reported at fair value and are held as part of its endowments.

The following risks apply to these investments:

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's investment policy limits interest rate risk by attempting to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of nonoperating funds ("core funds") shall have a term appropriate to the need for funds but should not exceed 3 years. The College utilizes "effective duration" as a measurement of interest rate risk and as of June 30, 2016, the effective duration on investments was 3 years. The College's investments in mutual funds at June 30, 2016, do not have reported maturities.

As a means of managing its exposure to fair-value losses arising from increasing interest rates, the Financing Corporation has established a target duration of its fixed-income portfolio to be between 1.5 and 3 years. The obligations of United States agencies and instrumentalities, State and municipal bonds, and corporate bonds have maturities between 1 to 3 years.

<u>Investment Maturities</u>	<u>Percent of Portfolio</u>
Less than 1 year	24.70
1-3 years	75.30
<b>Total</b>	<b>100.00</b>

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's investment policy does not address credit risk. The College's investments in Federal agency obligations and collateralized mortgage obligations at June 30, 2016, were rated Aaa by Standard & Poor's and Moody's at June 30, 2016. The College's investments in mutual funds at June 30, 2015 were unrated.

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

<u>Rating</u>	<u>Percent of Portfolio</u>
Aaa	45.20
Aa	42.90
A	11.90
<b>Total</b>	<b>100.00</b>

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

As of June 30, 2016, the College's Federal agency obligations were held with a third-party custodian as required by the College's investment policy.

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

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributable to the magnitude of the College's investments in a single issuer. The College's investment policy's has established asset allocation and issuer limits on the following investments which are designed to reduce concentration of credit risk of the College's investment portfolio. A maximum of 100 percent of available funds may be

invested in intergovernmental pools, money market mutual funds, United States government securities; and in United States government agencies; 75 percent of available funds may be invested in Federal agencies and instrumentalities; 50 percent of available funds may be invested in corporate bonds, non-negotiable certificates of deposit and savings accounts, and commercial paper; 40 percent of available funds may be invested in repurchase agreements; 25 percent of available funds may be invested in supranationals, municipal bonds, agency mortgage-backed securities, asset-backed securities, and Florida local government surplus funds trust funds (Florida PRIME); and 20 percent of available funds may be invested in fixed-income mutual funds.

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

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

### **Component Unit Investments**

Investments held by the Florida SouthWestern State College Foundation, Inc. at March 31, 2016, consisted of mutual funds and are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
Mutual Funds:	
Hedge	\$ 7,184,752
Equities	20,974,773
Bonds	18,632,239
<b>Total Component Unit Investments</b>	<b>\$ 46,791,764</b>

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

As of March 31, 2016, the maturities of the Foundation's mutual funds-bonds investments of \$18,632,239 by percentage of its portfolio, are presented in the following table:

<u>Investment Maturities</u>	<u>Percentage of Portfolio</u>
Less than 1 year	15.85
1 - 3 years	27.15
3 - 5 years	23.08
5 - 7 years	9.00
7 - 9 years	6.72
9 or more years	18.20
<b>Total</b>	<u>100.00</u>

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

*Credit Risk:* It is the Foundation's policy that the investment grade portion of the fixed-income portfolio must be rated at the four (4) highest ratings (i.e., single "A" or higher) or a comparable rating by Moody's or Standard & Poor's rating services, respectively. The high-yield portion of the fixed-income portfolio will consist of below investment grade securities. There is no bottom limit on the ratings of the high-yield portfolio.

The Foundation's fixed-income investments at March 31, 2016 were rated as follows:

<u>Rating</u>	<u>Percentage of Portfolio</u>
Aaa	63.17
Aa	3.96
A	11.82
Baa	17.82
Ba and below	2.51
Not Rated	0.72
	<u>100.00</u>

The Foundation's investments are held as part of large mutual funds. Therefore, it is not possible to isolate credit risk by actual security held, but rather by the mutual fund in total.

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

*Concentration of Credit Risk:* The Foundation's policies state that the non-United States investment grade portion of the fixed-income portfolio must consist of securities of non-United States issuers located in at least three non-United States countries. The Foundation's policies do not specifically limit the debt of securities maturity dates. The Foundation's investment policy prohibits the concentration of more than 5 percent of its investments in a single specific investment vehicle. Likewise, the Foundation cannot hold more than 5 percent of any specific issuer.

## 5. Accounts Receivable

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are reported net of an \$821,495 allowance for doubtful accounts.

## 6. Notes Receivable

Notes receivable represent student loans made under the short-term loan program of \$115,900. Notes receivable are reported net of a \$28,530 allowance for doubtful notes.

## 7. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of \$ 1,325,344 of Public Education Capital Outlay allocations due from the State for construction and renovation of College facilities, \$1,336,181 due from Vocational Rehabilitation and Veterans Affairs, and \$1,037,709 due from the Florida Prepaid College Fund.

## 8. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2016, is shown in the following table:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 3,079,830	\$ -	\$ -	\$ 3,079,830
Art Collections	503,093	20,000	-	523,093
Construction in Progress	2,814,058	20,671,721	2,585,204	20,900,575
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 6,396,981</b>	<b>\$ 20,691,721</b>	<b>\$ 2,585,204</b>	<b>\$ 24,503,498</b>
Depreciable Capital Assets:				
Buildings	\$ 204,065,068	\$ 2,370,204	\$ -	\$ 206,435,272
Other Structures and Improvements	13,612,721	215,000	-	13,827,721
Furniture, Machinery, and Equipment	9,865,924	873,501	873,837	9,865,588
<b>Total Depreciable Capital Assets</b>	<b>227,543,713</b>	<b>3,458,705</b>	<b>873,837</b>	<b>230,128,581</b>
Less, Accumulated Depreciation:				
Buildings	63,755,989	4,715,373	-	68,471,362
Other Structures and Improvements	11,945,405	562,504	-	12,507,909
Furniture, Machinery, and Equipment	7,308,643	975,229	863,006	7,420,866
<b>Total Accumulated Depreciation</b>	<b>83,010,037</b>	<b>6,253,106</b>	<b>863,006</b>	<b>88,400,137</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 144,533,676</b>	<b>\$ (2,794,401)</b>	<b>\$ 10,831</b>	<b>\$ 141,728,444</b>

## 9. Unearned Revenue

Unearned revenue at June 30, 2016, includes student dorm fees of \$317,363 paid to the Financing Corporation that was received prior to fiscal year-end related to subsequent accounting periods.

## 10. Deferred Outflow of Resources – Component Unit

The College's blended component unit, the Financing Corporation, entered into an interest rate swap agreement in connection with its tax-exempt loan to manage the risk of rising interest rates on its variable rated-based debt. The deferred outflow of resources includes the effect of deferring accumulated decreases in fair value of a hedging derivative related to this interest rate swap agreement. The Bonds Payable section of Note 11. includes further discussion of the interest rate swap agreement.

## 11. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2016, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 39,094,108	\$ -	\$ 1,351,403	\$ 37,742,705	\$ 1,454,073
Derivative Instrument, Interest Rate Swap	1,268,215	-	395,048	873,167	-
Special Termination Benefits Payable	188,087	184,819	112,522	260,384	111,713
Compensated Absences Payable	3,957,220	687,138	203,202	4,441,156	165,361
Other Postemployment Benefits Payable	214,460	115,397	91,718	238,139	-
Net Pension Liability	13,747,166	13,494,262	6,629,987	20,611,441	400,585
<b>Total Long-Term Liabilities</b>	<b>\$ 58,469,256</b>	<b>\$ 14,481,616</b>	<b>\$ 8,783,880</b>	<b>\$ 64,166,992</b>	<b>\$ 2,131,732</b>

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

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

The College had the following bonds payable at June 30, 2016:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds:			
Series 2008A	\$ 1,145,000	4.25 - 5.0	2028
Series 2014A, Refunding	239,000	4.0 - 5.0	2025
Series 2014B, Refunding	52,000	5	2020
Florida Department of Education Capital Improvement Revenue Bonds:			
Series 2010A	<u>12,290,000</u>	4.0 - 4.375	2030
<b>Total</b>	<u><u>\$ 13,726,000</u></u>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2016, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>SBE Capital Outlay Bonds and Capital Improvement Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 788,000	\$ 572,002	\$ 1,360,002
2018	792,000	539,523	1,331,523
2019	820,000	506,872	1,326,872
2020	857,000	473,123	1,330,123
2021	893,000	437,852	1,330,852
2022-2026	5,066,000	1,604,460	6,670,460
2027-2030	<u>4,510,000</u>	<u>483,144</u>	<u>4,993,144</u>
<b>Total</b>	<u><u>\$ 13,726,000</u></u>	<u><u>\$ 4,616,976</u></u>	<u><u>\$ 18,342,976</u></u>

**Bonds Payable – Financing Corporation.** On December 1, 2010, the Financing Corporation entered into a Financing Agreement with the Lee County Development Authority to issue a \$26,300,000 Industrial Development Revenue Bond (Series 2010) for the construction of a 405-bed dormitory. On December 21, 2010, the Corporation closed on the bond purchased by Branch Banking and Trust Company as a tax-exempt Bank Qualified Loan (BQ). The BQ provides for the repayment of principal and related interest through December 1, 2040. The BQ will bear interest at a rate computed as the sum of (a) 68 percent of 1-month London Interbank Offered Rate (LIBOR) and (b) 65 percent of 1.85 percent per annum, as adjusted monthly with changes in 1-month LIBOR. The rate as of March 31, 2016, was 1.499 percent.

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

Fiscal Year Ending March 31	LCDA Industrial Development Revenue Bond		
	Principal	Interest	Total
2017	\$ 666,073	\$ 898,001	\$ 1,564,074
2018	635,597	872,704	1,508,301
2019	659,517	848,997	1,508,514
2020	682,134	824,397	1,506,531
2021	710,022	801,144	1,511,166
2022-2026	3,969,633	3,579,041	7,548,674
2027-2031	4,775,461	2,780,524	7,555,985
2032-2036	5,744,222	1,819,885	7,564,107
2037-2041	6,174,046	664,332	6,838,378
<b>Total</b>	<b>\$ 24,016,705</b>	<b>\$ 13,089,025</b>	<b>\$ 37,105,730</b>

Tenant revenues collected are pledged first to be used for debt service. The total amount of rental revenue recorded during the year ended March 31, 2016, was \$2,751,290.

Under the terms of the BQ, the Financing Corporation was required to fund the “debt service fund requirement” upon the completion of the project. This was funded and \$1,771,153 is reported in restricted cash and cash equivalents.

**Interest Rate Swap Agreement – Financing Corporation.** On December 23, 2010, the Financing Corporation, as the counterparty, entered into an interest rate swap agreement (Swap) with Branch Bank and Trust Company for the purpose of hedging its variable interest rate risk on the tax-exempt BQ loan. The Swap provides that the Financing Corporation pay interest at an annual fixed rate of 3.66 percent effective July 1, 2012, and terminating December 17, 2017. The Swap has been determined to be an effective hedge. As such, the change in fair value is reported as a deferred outflow, a noncurrent asset reported on the statement of net position. The fair value balances and notional amounts of derivative instruments for the fiscal year then ended March 31, 2016, as reported in the financial statements are presented below:

Interest Rate Swap	Changes in Fair Value		Fair Value at March 31, 2016		Notional Amount
	Classification	Amount	Classification	Amount	
Cash Flow Hedges:					
Pay-Fixed Interest Rate Swap	Deferred Outflow of Resources	\$ 407,971	Derivative Instrument Interest Rate Swap	\$ (873,167)	\$ 24,322,482

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

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

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

**Special Termination Benefits Payable.** The College reported a special termination benefits payable of \$260,384 as of June 30, 2016, for 13 employees who gave notice to retire under the Retirement Incentive Program, of which \$111,713 represents the current portion.

**Compensated Absences Payable.** College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2016, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$4,441,156. The current portion of the compensated absences liability, \$165,361, is the amount expected to be paid in the coming fiscal year, and represents eligible payments for unused sick leave on behalf of regular retirees and Deferred Retirement Optional Plan Program participants to a deferred compensation annuity program.

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

*Plan Description.* The College contributes to an agent multiple-employer defined benefit plan (Plan) administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the Plan and the Plan is not included in the annual report of a public employee retirement system or another entity.

*Funding Policy.* Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees has established and can amend Plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2015-16 fiscal year, 58 retirees received postemployment healthcare benefits, and 58 retirees received postemployment life insurance benefits. The College provided required contributions of \$91,718 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$390,599, which represents 1.2 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 75,181
Amortization of Unfunded Actuarial Accrued Liability	<u>39,562</u>
<b>Annual Required Contribution</b>	114,743
Interest on Net OPEB Obligation	8,578
Adjustment to Annual Required Contribution	<u>(7,924)</u>
<b>Annual OPEB Cost (Expense)</b>	115,397
Contribution Toward the OPEB Cost	<u>(91,718)</u>
<b>Increase in Net OPEB Obligation</b>	23,679
Net OPEB Obligation, Beginning of Year	<u>214,460</u>
<b>Net OPEB Obligation, End of Year</b>	<u><u>\$ 238,139</u></u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2016, and for the 2 preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013-14	\$ 115,193	61.9%	\$ 179,240
2014-15	115,486	69.5%	214,460
2015-16	115,397	79.5%	238,139

*Funded Status and Funding Progress.* As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$1,070,726 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,070,726 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$32,125,264 for the 2015-16 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3.3 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. Actuarially determined amounts 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 calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial valuations used actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The College's OPEB actuarial valuation as of July 1, 2015, used the entry age normal actuarial method to estimate the actuarial accrued liability as of June 30, 2016, and the College's 2015-16 fiscal year ARC. This method was selected in anticipation of the change outlined in GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is based upon the likely return of the assets if placed in trust to pay benefits. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year, an inflation rate of 2.60 percent per year, and an annual healthcare cost trend rate of 7.5 percent pre-Medicare and 5.5 percent Medicare for the 2015-16 fiscal year, reduced by decrements to an ultimate rate of 5 percent in 2020 for pre-Medicare and in 2017 for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2016, was 21 years.

## **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 (DROP) 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 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 employed by the State and faculty and specified employees of State colleges.

Essentially all regular employees of the College are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of

Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' Web site ([www.dms.myflorida.com](http://www.dms.myflorida.com)).

The College's FRS and HIS pension expense totaled \$1,845,722 for the fiscal year ended June 30, 2016.

### **FRS Pension Plan**

*Plan Description.* The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a 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 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 service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and

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

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
<b>Regular Class members initially enrolled before July 1, 2011</b>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<b>Regular Class members initially enrolled on or after July 1, 2011</b>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<b>Special Risk Regular</b>	
Service on and after October 1, 1974	3.00
<b>Senior Management Service Class</b>	
	2.00

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

*Contributions.* The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2015-16 fiscal year were:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.26
FRS, Senior Management Service	3.00	21.43
FRS, Special Risk	3.00	22.04
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.88
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.

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

The College's contributions to the Plan totaled \$1,103,705 for the fiscal year ended June 30, 2016.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2016, the College reported a liability of \$9,697,180 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined

by an actuarial valuation as of July 1, 2015. The College's proportionate share of the net pension liability was based on the College's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the College's proportionate share was 0.075076834 percent, which was an increase of 0.005197971 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the College recognized pension expense of \$940,958. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,023,735	\$ 229,988
Change of assumptions	643,634	-
Net difference between projected and actual earnings on FRS Plan investments	-	2,315,525
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	1,193,677	-
College FRS contributions subsequent to the measurement date	1,103,705	-
<b>Total</b>	<u>\$ 3,964,751</u>	<u>\$ 2,545,513</u>

The deferred outflows of resources related to pensions totaling \$1,103,705, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. 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>
2017	\$ (541,900)
2018	(541,900)
2019	(541,899)
2020	1,368,481
2021	447,239
Thereafter	125,512
<b>Total</b>	<u>\$ 315,533</u>

*Actuarial Assumptions.* The total pension liability in the July 1, 2015, 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, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation (1)</b>	<b>Annual Arithmetic Return</b>	<b>Compound Annual (Geometric) Return</b>	<b>Standard Deviation</b>
Cash	1%	3.2%	3.1%	1.7%
Fixed Income	18%	4.8%	4.7%	4.7%
Global Equity	53%	8.5%	7.2%	17.7%
Real Estate (Property)	10%	6.8%	6.2%	12.0%
Private Equity	6%	11.9%	8.2%	30.0%
Strategic Investments	12%	6.7%	6.1%	11.4%
<b>Total</b>	<b>100%</b>			
Assumed inflation - Mean		2.6%		1.9%

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

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

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

	<b>1% Decrease (6.65%)</b>	<b>Current Discount Rate (7.65%)</b>	<b>1% Increase (8.65%)</b>
College's proportionate share of the net pension liability	\$25,127,587	\$ 9,697,180	\$(3,143,453)

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

## **HIS Pension Plan**

*Plan Description.* The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

*Benefits Provided.* For the fiscal year ended June 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of \$30 and a maximum HIS payment of \$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, 2016, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The College contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The College's contributions to the HIS Plan totaled \$558,292 for the fiscal year ended June 30, 2016.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2016, the College reported a net pension liability of \$10,914,261 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within 1 year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to the HIS Plan actuarial valuation as of July 1, 2014. The College's proportionate share of the net pension liability was based on the College's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the College's proportionate share was 0.107019063 percent, which was an increase of 0.005593604 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the College recognized pension expense of \$904,764. In addition, the College reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 858,667
Net difference between projected and actual earnings on HIS Plan investments	5,908
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	546,617
College contributions subsequent to the measurement date	558,292
<b>Total</b>	<u>\$ 1,969,484</u>

The deferred outflows of resources totaling \$558,292, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. 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>
2017	\$ 228,436
2018	228,436
2019	228,435
2020	227,236
2021	226,659
Thereafter	271,990
<b>Total</b>	<u>\$ 1,411,192</u>

*Actuarial Assumptions.* The total pension liability at July 1, 2015, determined by applying update procedures to the actuarial valuation at July 1, 2014, used 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	3.80 percent

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

While an experience study had not been completed for the HIS Plan, the actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study for the FRS Plan.

*Discount Rate.* The discount rate used to measure the total pension liability was 3.8 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. The discount rate used to determine the total pension liability decreased from 4.29 percent from the prior measurement date.

*Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 3.8 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.8 percent) or 1 percentage point higher (4.8 percent) than the current rate:

	<u>1% Decrease (2.80%)</u>	<u>Current Discount Rate (3.80%)</u>	<u>1% Increase (4.80%)</u>
College's proportionate share of the net pension liability	\$ 12,436,292	\$ 10,914,261	\$ 9,645,115

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

### 13. Retirement Plans – Defined Contribution Pension Plans

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2015-16 fiscal year were as follows:

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

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the College.

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

The College's Investment Plan pension expense totaled \$744,167 for the fiscal year ended June 30, 2016.

**State College System Optional Retirement Program.** Section 1012.875, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible college instructors and administrators. The Program is designed to aid colleges in recruiting employees by offering more portability to employees not expected to remain in the FRS for 8 or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes 5.15 percent of the participant's salary to the participant's account, 2.65 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover the administrative costs, for a total of 7.8 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The College's contributions to the Program totaled \$227,809 and employee contributions totaled \$87,589 for the 2015-16 fiscal year.

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

eligible positions are allowed to make an irrevocable election to participate in the Local Annuity Program, rather than the FRS.

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

The College's contributions to the Local Annuity Program totaled \$187,149 for the 2015-16 fiscal year.

#### **14. Other Termination Benefits**

The College provides an IRS approved Code Section 401(a) pre-tax program for termination pay that permits the College to disburse termination pay in a tax-advantaged manner for both the College and the employee. Contributions are limited by IRS regulation. All employees in designated employee classes with at least 10 years of service at the time of separation are mandated to participate in this program. The College deferred \$187,677 in salaries for 12 employees during the 2015-16 fiscal year for other termination benefits.

#### **15. Savings Incentive Plan**

Effective January 1, 1994, the Board approved a Savings Incentive Plan as provided by Section 403(b) of the Internal Revenue Code of 1986. Under the Plan, all full-time employees can elect to defer a portion of their salary within Internal Revenue Service guidelines. The College may make a matching employer contribution in an amount to be determined annually by the Board at its discretion. During the 2015-16 fiscal year, the College matched one dollar for every dollar deferred by the employee up to the first 3 percent of employee compensation. Each employee is fully vested upon enrollment in the Plan, and is allowed to direct the investment of his or her account to any one of the various fund groups and insurance companies approved for investment by the College. During the 2015-16 fiscal year, the College contributed \$675,221 as matching funds under the Plan.

#### **16. Construction Commitments**

The College's construction commitments at June 30, 2016, are as follows:

<b>Project Description</b>	<b>Total Commitment</b>	<b>Completed to Date</b>	<b>Balance Committed</b>
Student Activity Center			
Construction	\$ 19,046,359	\$ 9,819,864	\$ 9,226,495
Architect	2,282,560	2,142,310	140,250
Materials and Other Construction Exp.	5,288,215	3,356,811	1,931,404
Total	26,617,134	15,318,985	11,298,149
Student Activity Center Parking			
Construction	1,998,524	-	1,998,524
Building H Renovation			
Construction	4,855,794	4,394,695	461,099
Architect	423,415	403,986	19,429
Materials and Other Construction Exp.	707,640	698,611	9,029
Total	5,986,849	5,497,292	489,557
Hendry Glades Construction			
Construction	976,161	51,161	925,000
Architect	99,675	33,137	66,538
Materials and Other Construction Exp.	20,325	-	20,325
Total	1,096,161	84,298	1,011,863
<b>Total</b>	<b>\$ 35,698,668</b>	<b>\$ 20,900,575</b>	<b>\$ 14,798,093</b>

## 17. Risk Management Programs

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide college risk management program. The Consortium is self-sustaining through member assessments (premiums) and purchases excess insurance through commercial companies for claims in excess of specified amounts. Excess insurance from commercial companies provided coverage of up to \$200 million for property insurance. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 fiscal years.

## 18. Functional Distribution of Operating Expenses

The functional classification of an operating expense (instruction, academic support, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating

expenses on the statement of revenues, expenses, and changes in net position are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 30,216,998
Public Services	518,173
Academic Support	7,315,715
Student Services	10,978,501
Institutional Support	16,939,140
Operation and Maintenance of Plant	10,509,574
Scholarships and Waivers	7,619,682
Depreciation	6,253,106
Auxiliary Enterprises	1,633,866
<b>Total Operating Expenses</b>	<b>\$ 91,984,755</b>

## 19. Blended Component Unit

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

### Condensed Statement of Net Position

	<b>Florida SouthWestern State College Financing Corporation</b>	<b>College</b>	<b>Eliminations</b>	<b>Total Primary Government</b>
<b>Assets:</b>				
Other Current Assets	\$ 3,127,127	\$ 28,474,255	\$ (145,972)	\$ 31,455,410
Capital Assets, Net	19,821,762	146,410,180	-	166,231,942
Other Noncurrent Assets	8,209,070	11,582,877	-	19,791,947
<b>Total Assets</b>	<b>31,157,959</b>	<b>186,467,312</b>	<b>(145,972)</b>	<b>217,479,299</b>
<b>Deferred Outflows of Resources</b>	<b>820,164</b>	<b>5,934,235</b>	<b>-</b>	<b>6,754,399</b>
<b>Liabilities:</b>				
Other Current Liabilities	1,032,836	8,702,322	(145,972)	9,589,186
Noncurrent Liabilities	24,223,799	37,811,461	-	62,035,260
<b>Total Liabilities</b>	<b>25,256,635</b>	<b>46,513,783</b>	<b>(145,972)</b>	<b>71,624,446</b>
<b>Deferred Inflows of Resources</b>	<b>-</b>	<b>2,545,513</b>	<b>-</b>	<b>2,545,513</b>
<b>Net Position:</b>				
Net Investment in Capital Assets	(408,153)	132,684,179	-	132,276,026
Restricted - Nonexpendable	-	709,083	-	709,083
Restricted - Expendable	1,771,153	18,513,112	-	20,284,265
Unrestricted	5,358,488	(8,564,123)	-	(3,205,635)
<b>Total Net Position</b>	<b>\$ 6,721,488</b>	<b>\$ 143,342,251</b>	<b>\$ -</b>	<b>\$ 150,063,739</b>

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

	Florida SouthWestern State College Financing Corporation	College	Eliminations	Total Primary Government
Operating Revenues	\$ 2,751,290	\$ 18,815,486	\$ -	\$ 21,566,776
Depreciation Expense	(564,453)	(5,688,653)	-	(6,253,106)
Other Operating Expenses	(896,091)	(84,835,558)	-	(85,731,649)
<b>Operating Income (Loss)</b>	<b>1,290,746</b>	<b>(71,708,725)</b>	<b>-</b>	<b>(70,417,979)</b>
Nonoperating Revenues (Expenses):				-
Nonoperating Revenue	672,349	67,685,585	-	68,357,934
Interest Expense	(911,072)	(600,027)	-	(1,511,099)
Other Nonoperating Expense	(239,595)	(1,510,365)	-	(1,749,960)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(478,318)</b>	<b>65,575,193</b>	<b>-</b>	<b>65,096,875</b>
Other Revenues, Expenses, Gains, and Losses	-	10,840,129	-	10,840,129
<b>Increase (Decrease) in Net Position</b>	<b>812,428</b>	<b>4,706,597</b>	<b>-</b>	<b>5,519,025</b>
Net Position, Beginning of Year	5,909,060	138,635,654	-	144,544,714
<b>Net Position, End of Year</b>	<b>\$ 6,721,488</b>	<b>\$ 143,342,251</b>	<b>\$ -</b>	<b>\$ 150,063,739</b>

## Condensed Statement of Cash Flows

	Florida SouthWestern State College Financing Corporation	College	Eliminations	Total Primary Government
Net Cash Provided (Used) by:				
Operating Activities	\$ 1,700,410	\$ (64,325,057)	\$ -	\$ (62,624,647)
Noncapital Financing Activities	561,880	65,397,867	-	65,959,747
Capital and Related Financing Activities	(1,708,745)	(4,513,656)	-	(6,222,401)
Investing Activities	(365,978)	415,077	-	49,099
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>187,567</b>	<b>(3,025,769)</b>	<b>-</b>	<b>(2,838,202)</b>
Cash and Cash Equivalents, Beginning of Year	4,479,117	20,826,375	-	25,305,492
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 4,666,684</b>	<b>\$ 17,800,606</b>	<b>\$ -</b>	<b>\$ 22,467,290</b>

## 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]
7/1/2011	\$ -	\$ 580,062	\$ 580,062	0%	\$ 25,052,174	2.3%
7/1/2013	-	1,047,396	1,047,396	0%	29,665,206	3.5%
7/1/2015	-	1,070,726	1,070,726	0%	32,125,264	3.3%

Note: (1) The College's OPEB actuarial valuation used the projected unit credit actuarial method in the 7/1/2011 and 7/1/2013 valuations and the entry age normal actuarial method in the 7/1/2015 valuation to estimate the actuarial accrued liability.

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

	2015 (1)	2014 (1)	2013 (1)
College's proportion of the FRS net pension liability	0.075076834%	0.069878863%	0.065525694%
College's proportionate share of the FRS net pension liability	\$ 9,697,180	\$ 4,263,638	\$ 11,279,888
College's covered-employee payroll (2)	\$ 26,165,336	\$ 24,572,458	\$ 24,284,696
College's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	37.06%	17.35%	46.45%
FRS Plan fiduciary net position as a percentage of the total pension liability	92.00%	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, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

**Schedule of College Contributions –  
Florida Retirement System Pension Plan**

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required FRS contribution	\$ 1,103,705	\$ 1,830,437	\$ 1,530,644
FRS contributions in relation to the contractually required contribution	<u>(1,103,705)</u>	<u>(1,830,437)</u>	<u>(1,530,644)</u>
FRS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll (2)	\$ 27,809,073	\$ 26,165,336	\$ 24,572,458
FRS contributions as a percentage of covered-employee payroll	3.97%	7.00%	6.23%

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

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

	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.107019063%	0.101425459%	0.099636556%
College's proportionate share of the HIS net pension liability	\$ 10,914,261	\$ 9,483,528	\$ 8,674,672
College's covered-employee payroll (2)	\$ 36,761,312	\$ 34,166,397	\$ 33,051,575
College's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	29.69%	27.76%	26.25%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.50%	0.99%	1.78%

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

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

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

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 558,292	\$ 409,093	\$ 347,450
HIS contributions in relation to the contractually required HIS contribution	<u>(558,292)</u>	<u>(409,093)</u>	<u>(347,450)</u>
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll (2)	\$ 38,039,195	\$ 36,761,312	\$ 34,166,397
HIS contributions as a percentage of covered-employee payroll	1.47%	1.11%	1.02%

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

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

**1. 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 was decreased from 4.29 percent to 3.80 percent.



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 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 Florida SouthWestern State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 24, 2017, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the blended and discretely presented component units, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

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

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

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

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

### **Compliance and Other Matters**

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

We noted certain matters that we reported to College management in our operational audit report No. 2017-058.

### **Purpose of this Report**

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

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
February 24, 2017