

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2018-175
March 2018

FLORIDA SOUTHWESTERN STATE COLLEGE

For the Fiscal Year Ended
June 30, 2017



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2016-17 fiscal year, Dr. Jeffery S. Allbritten served as President of Florida SouthWestern State College and the following individuals served as Members of the Board of Trustees:

	<u>County</u>
Brian G. Chapman Jr., Chair	Lee
Tristan Chapman, Vice Chair	Hendry
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Eric Loche	Charlotte
Julia G. Perry	Glades
Braxton C. Rhone	Lee
Marjorie Starnes-Bilotti J.D.	Lee
Christopher T. Vernon J.D.	Collier
Sankey "Eddie" Webb III	Charlotte

^a Member resigned 12-13-16, position remained vacant at fiscal year end.

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

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

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

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FLORIDA SOUTHWESTERN STATE COLLEGE
TABLE OF CONTENTS

	<u>Page No.</u>
SUMMARY	i
INDEPENDENT AUDITOR'S REPORT	1
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	14
Statement of Revenues, Expenses, and Changes in Net Position	16
Statement of Cash Flows	18
Notes to Financial Statements	20
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Other Postemployment Benefits Plan	50
Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan	50
Schedule of College Contributions – Florida Retirement System Pension Plan	51
Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan	51
Schedule of College Contributions – Health Insurance Subsidy Pension Plan	51
Notes to Required Supplementary Information	52
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 <i>GOVERNMENT AUDITING STANDARDS</i>	53
Internal Control Over Financial Reporting	53
Compliance and Other Matters	54
Purpose of this Report	54

SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

AUDIT OBJECTIVES AND SCOPE

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

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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2017. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

AUDIT METHODOLOGY

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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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, 2017, 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 the blended and discretely presented component units. The financial statements of Florida SouthWestern State College Financing Corporation, a blended component unit, represents 14 percent, 29 percent, 4 percent, and 3 percent, respectively, of the assets, liabilities, net position, and revenues, reported for Florida SouthWestern State College. The financial statements of the discretely presented component unit represent 100 percent of the transactions and account balances of the discretely presented component unit's columns. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the blended and discretely presented component units, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require

that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of 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, 2017, 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 March 26, 2018, 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 effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Florida SouthWestern State College's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 26, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

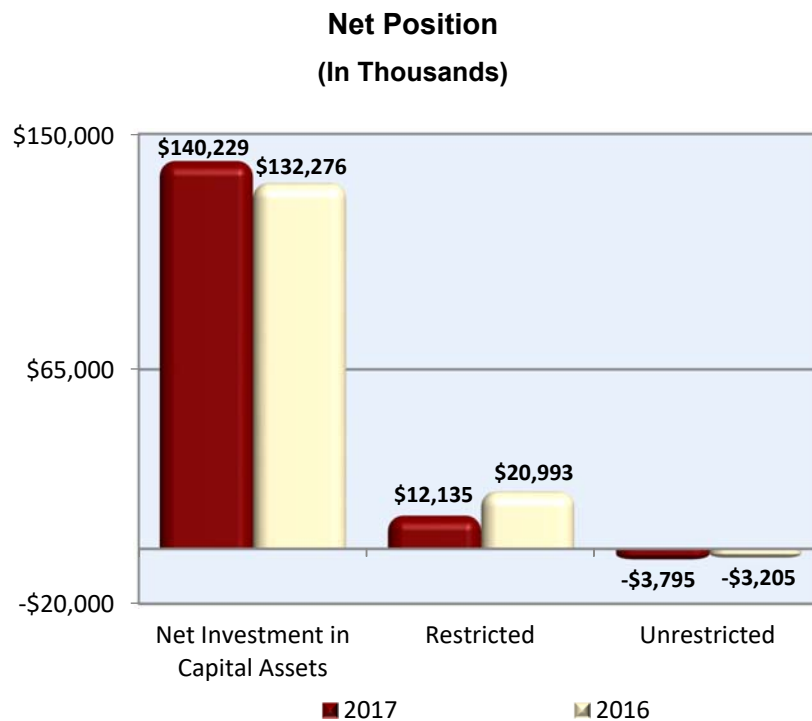
Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2017, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2017, and June 30, 2016, which includes its blended component unit Florida SouthWestern State College Financing Corporation for the fiscal years ended March 31, 2017, and March 31, 2016.

FINANCIAL HIGHLIGHTS

The College's assets and deferred outflows of resources totaled \$231.6 million at June 30, 2017. This balance reflects a \$7.3 million, or 3.3 percent, increase as compared to the 2015-16 fiscal year, resulting from an increase in deferred outflow of resources related to the Florida Retirement System pension plan and the Health Insurance Subsidy pension plan. While assets and deferred outflows of resources grew, liabilities and deferred inflows of resources increased by \$8.8 million, or 11.9 percent, totaling \$83 million at June 30, 2017, resulting from increases in loan payable and net pension liability. As a result, the College's net position decreased by \$1.5 million, resulting in a year-end balance of \$148.6 million.

The College's operating revenues totaled \$30.7 million for the 2016-17 fiscal year, representing a 42.1 percent increase compared to the 2015-16 fiscal year due mainly to an increase in State and local grants and nongovernmental grants and contracts. Operating expenses totaled \$98.4 million for the 2016-17 fiscal year, representing an increase of 7 percent as compared to the 2015-16 fiscal year due mainly to an increase in personnel services and scholarships and waivers.

Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, is shown in the following graph:



The following chart provides a graphical presentation of College revenues by category for the 2016-17 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. The 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 within the College reporting entity as a blended component unit, and the Foundation is included within 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 at June 30:

Condensed Statement of Net Position at June 30

(In Thousands)

	2017	2016
Assets		
Current Assets	\$ 30,850	\$ 31,455
Capital Assets, Net	176,518	166,232
Other Noncurrent Assets	10,639	19,792
Total Assets	218,007	217,479
Deferred Outflows of Resources	13,562	6,754
Liabilities		
Current Liabilities	8,484	9,589
Noncurrent Liabilities	74,004	62,035
Total Liabilities	82,488	71,624
Deferred Inflows of Resources	512	2,545
Net Position		
Net Investment in Capital Assets	140,229	132,276
Restricted	12,135	20,993
Unrestricted	(3,795)	(3,205)
Total Net Position	\$ 148,569	\$ 150,064

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 2016-17 and 2015-16 fiscal years:

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

	2016-17	2015-16
Operating Revenues	\$ 30,650	\$ 21,567
Less, Operating Expenses	98,383	91,985
Operating Loss	(67,733)	(70,418)
Net Nonoperating Revenues	61,281	65,097
Loss Before Other Revenues and Expenses	(6,452)	(5,321)
Other Revenues and Expenses	4,957	10,840
Net Increase (Decrease) In Net Position	(1,495)	5,519
Net Position, Beginning of Year	150,064	144,545
Net Position, End of Year	\$ 148,569	\$ 150,064

Operating Revenues

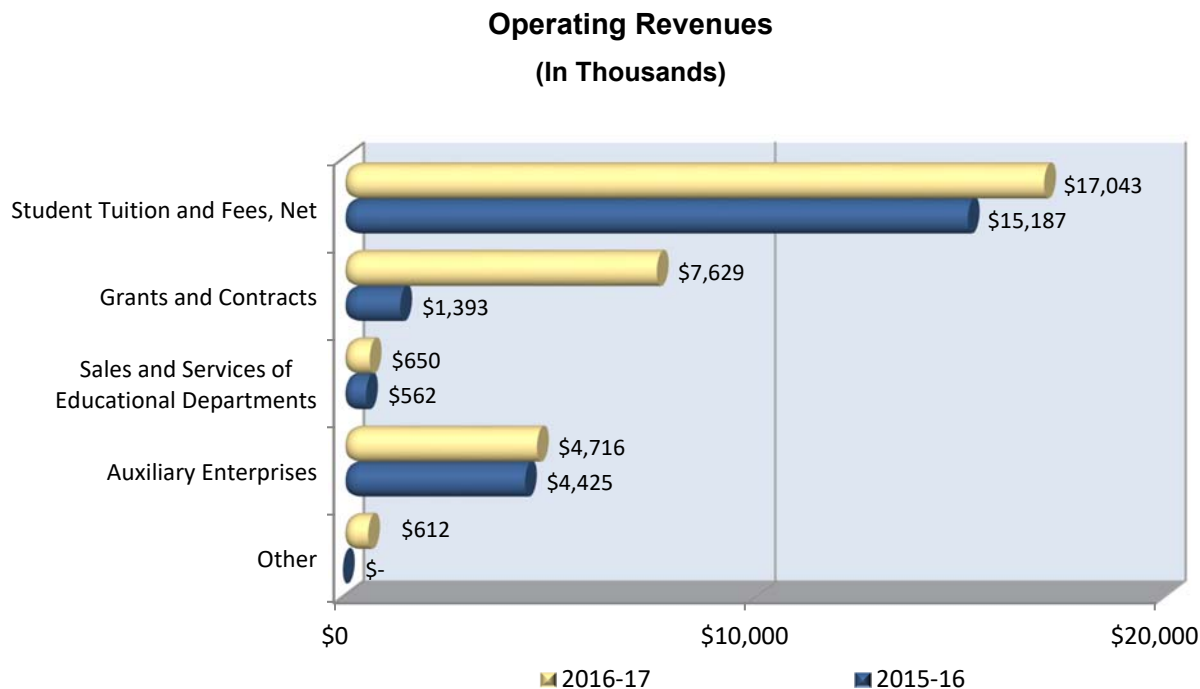
GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

The following summarizes the operating revenues by source that were used to fund operating activities for the 2016-17 and 2015-16 fiscal years:

Operating Revenues For the Fiscal Years (In Thousands)

	2016-17	2015-16
Student Tuition and Fees, Net	\$ 17,043	\$ 15,187
Grants and Contracts	7,629	1,393
Sales and Services of Educational Departments	650	562
Auxiliary Enterprises	4,716	4,425
Other	612	-
Total Operating Revenues	\$ 30,650	\$ 21,567

The following chart presents the College's operating revenues for the 2016-17 and 2015-16 fiscal years:



College operating revenue increased by \$9.1 million, primarily due an increase in grants and contracts.

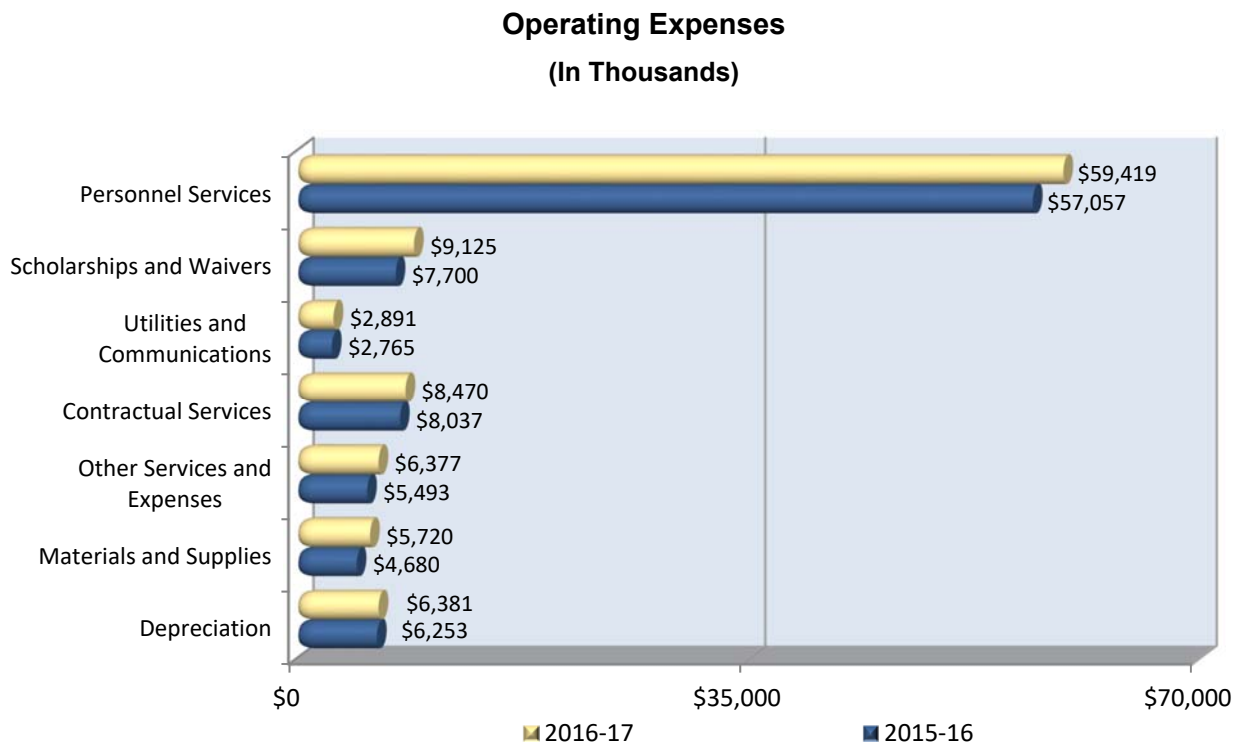
Operating Expenses

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 2016-17 and 2015-16 fiscal years:

Operating Expenses For the Fiscal Years		
(In Thousands)		
	2016-17	2015-16
Personnel Services	\$ 59,419	\$ 57,057
Scholarships and Waivers	9,125	7,700
Utilities and Communications	2,891	2,765
Contractual Services	8,470	8,037
Other Services and Expenses	6,377	5,493
Materials and Supplies	5,720	4,680
Depreciation	6,381	6,253
Total Operating Expenses	\$ 98,383	\$ 91,985

The following chart presents the College's operating expenses for the 2016-17 and 2015-16 fiscal years:



The operating expenses for the 2016-17 fiscal year were \$98.4 million, an increase of \$6.4 million compared to the 2015-16 fiscal year. Significant changes to operating expenses were the result of an increase in personnel services and scholarships and waivers.

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 2016-17 and 2015-16 fiscal years:

Nonoperating Revenues (Expenses)
For the Fiscal Years
(In Thousands)

	<u>2016-17</u>	<u>2015-16</u>
State Noncapital Appropriations	\$ 36,081	\$ 36,265
Federal and State Student Financial Aid	24,105	23,944
Gifts and Grants	4,239	6,802
Investment Income (Loss)	145	638
Other Nonoperating Revenues	1,638	708
Loss on Disposal of Capital Assets	(77)	(1)
Interest on Capital Asset-Related Debt	(1,457)	(1,511)
Other Nonoperating Expenses	<u>(3,393)</u>	<u>(1,748)</u>
Net Nonoperating Revenues	<u><u>\$ 61,281</u></u>	<u><u>\$ 65,097</u></u>

Changes in nonoperating revenues were primarily due to a decrease in gifts and grants and an increase in other nonoperating expenses.

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 and expenses for the 2016-17 and 2015-16 fiscal years:

Other Revenues and Expenses
For the Fiscal Years
(In Thousands)

	<u>2016-17</u>	<u>2015-16</u>
State Capital Appropriations	\$ 2,136	\$ 997
Capital Grants, Contracts, Gifts, and Fees	4,121	10,043
Other Expenses	<u>(1,300)</u>	<u>(200)</u>
Total	<u><u>\$ 4,957</u></u>	<u><u>\$ 10,840</u></u>

State capital appropriations increased by \$1.1 million due to an increase this year in State funding. Additionally, capital grants, contracts, gifts, and fees decreased by \$5.9 million, or 59 percent, primarily due to a decrease in capital grants and gifts.

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 2016-17 and 2015-16 fiscal years:

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

	<u>2016-17</u>	<u>2015-16</u>
Cash Provided (Used) by:		
Operating Activities	\$ (60,663)	\$ (62,625)
Noncapital Financing Activities	62,655	65,960
Capital and Related Financing Activities	(10,549)	(6,222)
Investing Activities	<u>4,137</u>	<u>49</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,420)	(2,838)
Cash and Cash Equivalents, Beginning of Year	<u>22,467</u>	<u>25,305</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 18,047</u></u>	<u><u>\$ 22,467</u></u>

Major sources of funds came from State noncapital appropriations (\$36.1 million), Federal and State student financial aid (\$23.5 million), net student tuition and fees (\$17.4 million), and Federal Direct Loan program receipts (\$12.5 million). Major uses of funds were for payments to employees and for employee benefits (\$57.8 million), payments to providers for goods and services (\$19.2 million), purchases of capital assets (\$17.9 million), and disbursements to students for Federal Direct Loans (\$12.5 million).

The overall decrease in cash was \$4.4 million, or 19.7 percent under the previous fiscal year.

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

At June 30, 2017, the College had \$270.4 million in capital assets, less accumulated depreciation of \$93.9 million, for net capital assets of \$176.5 million. Depreciation charges for the current fiscal year totaled \$6.4 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)

	2017	2016
Land	\$ 3,080	\$ 3,080
Art Collection	523	523
Construction in Progress	839	20,901
Buildings	240,261	206,435
Other Structures and Improvements	15,636	13,827
Furniture, Machinery, and Equipment	10,075	9,866
Total Capital Assets, Net	270,414	254,632
Less, Accumulated Depreciation	(93,896)	(88,400)
Capital Assets, Net	\$ 176,518	\$ 166,232

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, 2017, included the following projects: Lee Campus Student Activity Center for \$79.4 thousand, Lee Campus Student Activity Center Parking for \$36.6 thousand, Lee Loop Road for \$335.5 thousand, Lee Campus Building H renovations for \$96.8 thousand, Hendry Glades Construction/Renovation for \$12.9 thousand, and Lee Campus Student Housing Pool for \$808.6 thousand. The College's major construction commitments at June 30, 2017, are as follows:

	Amount (In Thousands)
Total Committed	\$ 1,370
Completed to Date	(839)
Balance Committed	\$ 531

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

Debt Administration

As of June 30, 2017, the College had \$40.3 million in outstanding bonds payable and loan payable representing an increase of \$2.6 million, or 6.8 percent, from the prior fiscal year primarily resulting from the loan payable. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt at June 30
(In Thousands)

	<u>2017</u>	<u>2016</u>
State Board of Education Capital Outlay Bonds	\$ 2,247	\$ 1,436
Department of Education Capital Improvement Revenue Bonds	11,620	12,290
Lee County Development Authority (LCDA) Industrial Development Revenue Bonds	23,351	24,017
Loan Payable	3,100	-
Total	<u>\$ 40,318</u>	<u>\$ 37,743</u>

Additional information about the College's long-term debt 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, the State funding is anticipated to remain flat in the 2017-18 fiscal year. In addition, future funding will be tied to performance requirements, and it is anticipated that overall enrollment will also 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, 2017

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 6,062,535	\$ 815,017
Restricted Cash and Cash Equivalents	8,698,118	3,150
Investments	4,606,315	867,317
Restricted Investments	3,415,180	-
Accounts Receivable, Net	3,606,337	463,167
Notes Receivable, Net	105,215	-
Due from Other Governmental Agencies	2,954,676	-
Prepaid Expenses	1,401,947	16,415
Total Current Assets	30,850,323	2,165,066
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	3,285,970	-
Investments	5,577,245	2,240,977
Restricted Investments	1,775,739	40,297,558
Depreciable Capital Assets, Net	172,076,033	-
Nondepreciable Capital Assets	4,441,873	-
Other Assets	-	3,906,442
Total Noncurrent Assets	187,156,860	46,444,977
TOTAL ASSETS	218,007,183	48,610,043
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	13,299,177	-
Accumulated Decrease in Fair Value of Hedging Derivatives	263,026	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	13,562,203	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,863,467	192,760
Accrued Interest Payable	34,866	-
Salary and Payroll Taxes Payable	2,467,797	-
Retainage Payable	122,552	-
Unearned Revenue	315,357	1,779,764
Deposits Held for Others	234,552	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	1,427,597	-
Loan Payable	505,795	-
Notes Payable	-	1,100,000
Special Termination Benefits Payable	87,548	-
Compensated Absences Payable	59,055	-
Net Pension Liability	365,974	-
Total Current Liabilities	8,484,560	3,072,524

FLORIDA SOUTHWESTERN STATE COLLEGE
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2017

	<u>College</u>	<u>Component Unit</u>
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	35,790,036	-
Derivative Instrument, Interest Rate Swap	320,907	-
Loan Payable	2,594,205	-
Special Termination Benefits Payable	98,517	-
Compensated Absences Payable	4,322,911	-
Other Postemployment Benefits Payable	255,861	-
Net Pension Liability	30,621,296	-
Total Noncurrent Liabilities	<u>74,003,733</u>	<u>-</u>
TOTAL LIABILITIES	<u>82,488,293</u>	<u>3,072,524</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	<u>511,792</u>	<u>-</u>
NET POSITION		
Net Investment in Capital Assets	140,229,274	-
Restricted:		
Nonexpendable:		
Endowment	624,846	19,189,378
Expendable:		
Grants and Loans	1,011,072	-
Scholarships	743,907	22,270,396
Capital Projects	6,885,619	-
Debt Service	2,869,181	-
Unrestricted	<u>(3,794,598)</u>	<u>4,077,745</u>
TOTAL NET POSITION	<u>\$ 148,569,301</u>	<u>\$ 45,537,519</u>

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, 2017

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$19,921,377	\$ 17,043,259	\$ -
Federal Grants and Contracts	979,080	-
State and Local Grants and Contracts	2,325,674	-
Nongovernmental Grants and Contracts	4,323,876	1,309,138
Sales and Services of Educational Departments	650,008	-
Auxiliary Enterprises	4,716,046	-
Other Operating Revenues	612,492	26,000
Total Operating Revenues	<u>30,650,435</u>	<u>1,335,138</u>
EXPENSES		
Operating Expenses:		
Personnel Services	59,419,279	-
Scholarships and Waivers	9,124,637	1,470,552
Utilities and Communications	2,891,246	-
Contractual Services	8,469,541	614,299
Other Services and Expenses	6,377,092	6,756,297
Materials and Supplies	5,719,723	-
Depreciation	6,381,555	-
Total Operating Expenses	<u>98,383,073</u>	<u>8,841,148</u>
Operating Loss	<u>(67,732,638)</u>	<u>(7,506,010)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	36,081,291	-
Federal and State Student Financial Aid	24,104,518	-
Gifts and Grants	4,238,815	-
Investment Income	145,119	4,465,578
Other Nonoperating Revenues	1,638,275	-
Loss on Disposal of Capital Assets	(76,933)	-
Interest on Capital Asset-Related Debt	(1,456,354)	-
Other Nonoperating Expenses	(3,393,494)	-
Net Nonoperating Revenues	<u>61,281,237</u>	<u>4,465,578</u>
Loss Before Other Revenues and Expenses	<u>(6,451,401)</u>	<u>(3,040,432)</u>
State Capital Appropriations	2,135,669	-
Capital Grants, Contracts, Gifts, and Fees	4,121,294	-
Increases in Permanent Endowments	-	56,448
Other Expenses	(1,300,000)	-
Total Other Revenues	<u>4,956,963</u>	<u>56,448</u>
Decrease in Net Position	<u>(1,494,438)</u>	<u>(2,983,984)</u>
Net Position, Beginning of Year	150,063,739	48,521,503
Net Position, End of Year	<u>\$ 148,569,301</u>	<u>\$ 45,537,519</u>

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, 2017

	<u>College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 17,448,316
Grants and Contracts	7,407,525
Payments to Suppliers	(19,210,296)
Payments for Utilities and Communications	(2,882,727)
Payments to Employees	(46,019,370)
Payments for Employee Benefits	(11,790,326)
Payments for Scholarships	(9,124,637)
Loans Issued to Students	(143,982)
Collection on Loans to Students	126,138
Auxiliary Enterprises	3,444,173
Sales and Services of Educational Departments	650,008
Other Payments	(567,972)
Net Cash Used by Operating Activities	<u>(60,663,150)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	36,081,291
Federal and State Student Financial Aid	23,517,537
Federal Direct Loan Program Receipts	12,480,597
Federal Direct Loan Program Disbursements	(12,480,597)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	5,787,976
Other Nonoperating Disbursements	(2,732,080)
Net Cash Provided by Noncapital Financing Activities	<u>62,654,724</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	4,029,000
State Capital Appropriations	2,379,306
Capital Grants and Gifts	2,814,984
Proceeds from Sale of Capital Assets	1,070,830
Purchases of Capital Assets	(17,936,492)
Principal Paid on Capital Debt and Leases	(1,454,072)
Interest Paid on Capital Debt and Leases	(1,452,462)
Net Cash Used by Capital and Related Financing Activities	<u>(10,548,906)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	6,164,370
Purchases of Investments	(2,300,110)
Investment Income	272,405
Net Cash Provided by Investing Activities	<u>4,136,665</u>
Net Decrease in Cash and Cash Equivalents	(4,420,667)
Cash and Cash Equivalents, Beginning of Year	<u>22,467,290</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 18,046,623</u></u>

FLORIDA SOUTHWESTERN STATE COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2017

	<u>College</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (67,732,638)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	6,381,555
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	324,514
Notes Receivable	(17,845)
Prepaid Expenses	(22,849)
Due From Other Government Agencies	(191,207)
Salaries and Payroll Taxes	266,048
Accounts Payable	(610,599)
Unearned Revenue	(2,006)
Deposits Held for Others	104,257
Special Termination Benefits Payable	(98,078)
Compensated Absences Payable	(59,190)
Other Postemployment Benefits Payable	17,722
Net Pension Liability	10,375,829
Deferred Outflows of Resources Related to Pensions	(7,364,942)
Deferred Inflows of Resources Related to Pensions	(2,033,721)
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (60,663,150)</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES	
Unrealized and realized losses on investments were recognized as a reduction to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (127,285)
Losses from 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.	\$ (76,933)

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The governing body of Florida SouthWestern State College, 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. The College Serves 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, 2017.

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 and can be obtained from Dr. Gina Doeble, CPA, Vice President of Administrative Services, Florida SouthWestern State College, 8099 College Parkway, Fort Myers, Florida 33919.

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, 2017.

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 entity wide reporting including the following components:

- Management's Discussion and Analysis
- Basic Financial Statements:
 - o Statement of Net Position
 - o Statement of Revenues, Expenses, and Changes in Net Position
 - o Statement of Cash Flows
 - o 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 the accrual basis of accounting, 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, and investment income (net of unrealized gains or losses on investments). Interest on capital asset-related debt is a nonoperating expense. Other revenues generally include revenues for capital construction projects.

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 SPIA and 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, 2017, the College reported as cash equivalents at fair value \$44,149 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 3.). 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 State Treasury SPIA investment pool carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.8 years and fair value factor of 0.9923 at June 30, 2017. Participants contribute to the State Treasury SPIA investment 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, 2017, the College reported as cash equivalents \$170,422 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 weighted-average days to maturity (WAM) of 39 days as of June 30, 2017. 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 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 measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour 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, 2017, 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:
 - o Computer Equipment – 3 years
 - o Vehicles, Office Machines, and Educational Equipment – 5 years
 - o Furniture – 7 years

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, derivative instrument, interest rate swap, loan payable, 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 positions 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 and HIS fiduciary net positions 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. Deficit Net Position in Individual Funds

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

<u>Fund</u>	<u>Net Position</u>
College:	
Current Funds - Unrestricted	\$ (13,309,754)
Auxiliary Funds	5,061,799
	<u>(8,247,955)</u>
Total College Net Position	
Blended Component Unit - Financing Corporation	4,453,357
	<u>4,453,357</u>
Total	<u>\$ (3,794,598)</u>

3. 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 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. 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.

Fair Value Measurement. 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, and Level 3 inputs are significant unobservable inputs.

All of the College's recurring fair value measurements as of June 30, 2017 are valued using significant observable inputs (Level 2 inputs).

The College's investments at June 30, 2017, are reported as follows:

Investments by fair value level	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)
State Board of Administration Debt Service Accounts	\$ 1,175,739	\$ 1,175,739	\$ -	\$ -
State and Municipal Bonds	1,226,909	-	1,226,909	-
Obligations of United States Government				
Agencies and Instrumentalities	6,765,499	-	6,765,499	-
Foreign Obligations	175,037	-	175,037	-
Collateralized Mortgage Obligations	1,213,774	-	1,213,774	-
Short Term Investments	63,833	-	63,833	-
Corporate Bonds	4,128,842	-	4,128,842	-
Mutual Funds	624,846	-	624,846	-
Total investments by fair value level	\$ 15,374,479	\$ 1,175,739	\$ 14,198,740	\$ -

State Board of Administration Debt Service Accounts.

The College reported investments totaling \$1,175,739 at June 30, 2017, 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, 2017, totaling \$14,198,740 consisted of obligations of United States agencies and Instrumentalities of \$6,765,499, foreign obligations of \$175,037, State and municipal bonds of \$1,226,909, corporate bonds of \$4,128,842, short-term investments of \$63,833, and collateralized mortgage obligations of \$1,213,774 reported at fair value. The College also had investments at June 30, 2017, totaling \$624,846 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, 2017, the effective duration on investments was 3 years. The College's investments in mutual funds at June 30, 2017, 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	27.70
1-3 years	72.30
Total	100.00

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, 2017, were rated Aaa by Standard & Poor's and Moody's at June 30, 2017. The College's investments in mutual funds at June 30, 2017 were unrated.

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

<u>Rating</u>	<u>Percent of Portfolio</u>
Aaa	56.10
Aa	34.10
A	9.80
Total	100.00

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, 2017, 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 an investment manager, FineMark National Bank and Trust, 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.

The Money Market Mutual Fund account, in the amount of \$66,087, is not insured through either the Federal Deposit Insurance Corporation (FDIC) or Chapter 280, Florida Statutes. Investments in these money market mutual funds are not categorized as to custodial credit risk as they are not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of the College's investments in a single issuer. The College's investment policy has established asset allocation and issuer limits on the following investments which are designed to reduce concentration of credit risk of the College's investment portfolio. A maximum of 100 percent of available funds may be invested in intergovernmental pools, money market mutual funds, 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 supranational, 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, government agency debt (including agency mortgage-backed securities), taxable municipal bonds, and corporate bonds with the following portfolio limitation: maximum allocation to taxable municipal bonds is 25 percent; maximum allocation to corporate bonds is 25 percent; and minimum allocation to government agency and agency mortgage-backed securities will be 50 percent, with the additional provision that the maximum allocation to agency mortgage-backed securities is 20 percent. The strategy states that all corporate bond investments will be A rated or better, with a provision that no purchase will be made if a bond is rated below A by any of the three ratings agencies.

All taxable municipal bond investments will be AA rated or better, with a provision that no purchases will be made if a bond is rated below AA by any of the three ratings agencies. All assets will be invested in liquid securities, defined as securities that can be sold quickly and efficiently for cash, and will settle within 3 business days.

Component Unit Investments.

Investments held by the Foundation at March 31, 2017, consisted of mutual funds and are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
Mutual Funds:	
Hedge	\$ 7,640,148
Equities	21,885,457
Bonds	13,880,247
Total Component Unit Investments	<u><u>\$43,405,852</u></u>

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, 2017, the maturities of the Foundation's mutual funds-bonds investments of \$13,880,247 by percentage of its portfolio, are presented in the following table:

<u>Investment Maturities</u>	<u>Percentage of Portfolio</u>
Less than 1 year	11.67
1 - 3 years	12.59
3 - 5 years	31.87
5 - 7 years	16.85
7 - 9 years	9.36
9 or more years	17.66
Total	<u><u>100.00</u></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 "BBB" or better, 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, 2017 were rated as follows:

<u>Rating</u>	<u>Percentage of Portfolio</u>
Aaa	63.75
Aaa	4.7
A	12.32
Baa	16.71
Ba and below	2.13
Not Rated	0.39
Total	100.00

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.

4. 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. The accounts receivable are reported net of a \$712,182 allowance for doubtful accounts.

5. Notes Receivable

Notes receivable represent student loans made under the short-term loan program of \$126,641. Notes receivable are reported net of a \$21,426 allowance for doubtful notes.

6. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of \$ 1,081,707 of Public Education Capital Outlay allocations due from the State for construction and renovation of College facilities, \$585,153 due from Vocational Rehabilitation and Veterans Affairs, and \$850,711 due from the Florida Prepaid College Fund.

7. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2017, 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	523,093	-	-	523,093
Construction in Progress	20,900,575	15,792,245	35,853,870	838,950
Total Nondepreciable Capital Assets	\$ 24,503,498	\$ 15,792,245	\$ 35,853,870	\$ 4,441,873
Depreciable Capital Assets:				
Buildings	\$ 206,435,272	\$ 33,825,164	\$ -	\$ 240,260,436
Other Structures and Improvements	13,827,721	2,028,706	220,281	15,636,146
Furniture, Machinery, and Equipment	9,865,588	952,207	742,613	10,075,182
Total Depreciable Capital Assets	230,128,581	36,806,077	962,894	265,971,764
Less, Accumulated Depreciation:				
Buildings	68,471,362	4,961,022	-	73,432,384
Other Structures and Improvements	12,507,909	427,746	220,281	12,715,374
Furniture, Machinery, and Equipment	7,420,866	992,787	665,680	7,747,973
Total Accumulated Depreciation	88,400,137	6,381,555	885,961	93,895,731
Total Depreciable Capital Assets, Net	\$ 141,728,444	\$ 30,424,522	\$ 76,933	\$ 172,076,033

8. Unearned Revenue

Unearned revenue at June 30, 2017, includes student dorm fees of \$315,357 paid to the Financing Corporation that was received prior to fiscal year end related to subsequent accounting periods.

9. 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 10. includes further discussion of the interest rate swap agreement.

10. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2017, is shown in the following table:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 37,742,705	\$ 929,000	\$ 1,454,072	\$ 37,217,633	\$ 1,427,597
Derivative Instrument, Interest Rate Swap	873,167	-	552,260	320,907	-
Loan Payable	-	3,100,000	-	3,100,000	505,795
Special Termination Benefits Payable	260,384	36,992	111,311	186,065	87,548
Compensated Absences Payable	4,441,156	49,596	108,786	4,381,966	59,055
Other Postemployment Benefits Payable	238,139	116,330	98,608	255,861	-
Net Pension Liability	20,611,441	19,994,957	9,619,128	30,987,270	365,974
Total Long-Term Liabilities	\$ 64,166,992	\$ 24,226,875	\$ 11,944,165	\$ 76,449,702	\$ 2,445,969

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 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, 2017:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2008A	\$ 1,090,000	4.25 - 5.0	2028
Series 2014A, Refunding	217,000	4.0 - 5.0	2025
Series 2014B, Refunding	11,000	5	2020
Series 2017A, Refunding	929,000	3.0 - 5.0	2028
Florida Department of Education Capital Improvement Revenue Bonds:			
Series 2010A	11,620,000	4.0 - 4.375	2030
Total	\$ 13,867,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds and Capital Improvement Revenue Bonds		
	Principal	Interest	Total
2018	\$ 792,000	\$ 569,258	\$ 1,361,258
2019	882,000	550,742	1,432,742
2020	925,000	513,893	1,438,893
2021	967,000	475,222	1,442,222
2022	1,014,000	434,723	1,448,723
2023 - 2027	5,773,000	1,497,432	7,270,432
2028 - 2030	3,514,000	293,839	3,807,839
Total	\$ 13,867,000	\$ 4,335,109	\$ 18,202,109

Defeased Debt and Refunding. The FDOE issued SBE, Capital Outlay Bonds, Series 2017A, on April 27, 2017, for \$35,805,000. A portion of the proceeds were used to refund \$29,840,000 of the SBE, Capital Outlay Bonds, Series 2008A on April 27, 2017. A separate amount of \$29,840,000 has been placed in a trust account to advance refund SBE, Capital Outlay Bonds, Series 2008A bonds. The College's portion of Series 2017A bonds totaled \$929,000 and was used to advance refund \$1,025,000 of the College's portion of Series 2008A bonds on April 27, 2017. The College's pro rata share of the net proceeds of the Series 2017A bonds was \$1,065,788 (including a premium at issuance of \$141,830 and after deduction of \$5,041 by the SBE for the College's pro rata share of underwriting fees, insurance, and other issuance costs). The proceeds of \$1,065,788 have been placed in a trust account to partially refund the Series 2008A bonds that mature on or after January 1, 2019, and is scheduled to be called on January 1, 2018. The Series 2008A debt is not considered legally defeased and the trust account is not considered to be risk-free in accordance with GASB Statement No. 7. As a result, the refunding of \$1,025,000 representing the College's portion of Series 2008A bonds has not been removed from the financial statements, and the assets held in the trust account were reported as restricted cash and cash equivalents at June 30, 2017. When the Series 2008A bonds are called on January 1, 2018, they will be removed.

Bonds Payable – Financing Corporation. On December 1, 2010, the Financing Corporation entered into a Financing Agreement with the Lee County Development Authority (LCDA) to issue a \$26,300,000 Industrial Development Revenue Bond (Series 2010) for the construction of a 405-bed residential hall. 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, 2017, was 1.834 percent.

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

Fiscal Year Ending March 31	LCDA Industrial Development Revenue Bonds		
	Principal	Interest	Total
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	736,747	772,470	1,509,217
2023-2027	4,119,054	3,430,975	7,550,029
2028-2032	4,954,069	2,602,401	7,556,470
2033-2037	5,961,587	1,606,294	7,567,881
2038-2041	4,891,906	431,642	5,323,548
Total	\$ 23,350,633	\$ 12,191,024	\$ 35,541,657

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, 2017, was \$2,729,181.

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 \$1,771,330 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 of resources on the statement of net position. The fair value balances and notional amounts of derivative instruments for the fiscal year then ended March 31, 2017, and the changes in fair value of such derivative instruments for the year then ended in the 2017 financial statement, are presented below:

Interest Rate Swap	Changes in Fair Value		Fair Value at March 31, 2017		Notional Amount
	Classification	Amount	Classification	Amount	
Cash Flow Hedges:					
Pay-Fixed Interest	Deferred Outflow		Derivative Instrument		
Rate Swap	Of Resources	\$ 557,138	Interest Rate Swap	\$ (320,907)	\$ 23,709,943

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.

Loan Payable. On September 29, 2016 the College entered into a short-term loan as authorized under Section 1001.64(38), Florida Statutes, with The Suncoast Credit Union. The Loan is for the purpose of providing a non-revolving line of credit of \$3,100,000, at a variable interest rate of Prime minus 0.25 percent with a minimum rate of 3.25 percent in order to provide the necessary funds for the construction and completion of the new on-campus 75,000 square foot, 3,300 seat sports arena and convocation facility to be known as the “Suncoast Arena” at the Lee campus.

Interest Rate: The rate of interest shall be equal to the Wall Street Journal Prime Rate minus 0.25 percent, to be adjusted on the 15th day of each quarter; provided, however, that the interest rate shall never be less than the initial interest rate at Closing. All interest charged on the Loan shall be based on a 365 or 366, as applicable, day year for the actual number of days elapsed.

Equal quarterly payments on the 15th day of each quarter of principal and interest based on the outstanding principal balance, bearing interest at the interest rate, with the payment calculated on a quarterly amortization schedule over 51 months; provided, however, that upon any adjustment in the interest rate as the result of any quarterly change in the Wall Street Journal Prime Rate, the quarterly payment may be adjusted by the lender to reflect the new interest rate and the remaining term of the original amortization schedule. The entire outstanding principal balance and all accrued interest shall be due in full at the end of the 51 months, September 28, 2021. The Loan may be prepaid in whole or in part at any time without penalty or premium. Annual requirements to amortize the outstanding loan as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 505,795	\$ 113,163	\$ 618,958
2019	704,815	93,284	798,099
2020	733,434	64,665	798,099
2021	763,214	34,885	798,099
2022	392,742	5,899	398,641
Total	<u>\$ 3,100,000</u>	<u>\$ 311,896</u>	<u>\$ 3,411,896</u>

Special Termination Benefits Payable. The College reported a special termination benefits payable of \$186,065 as of June 30, 2017, for 7 employees who gave notice to retire under the Retirement Incentive Program, of which \$87,548 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, 2017, the estimated liability for compensated absences, which includes the College’s share of the Florida

Retirement System and FICA contributions, totaled \$4,381,966. The current portion of the compensated absences liability, \$59,055, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

Other Postemployment Benefits Payable. The 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 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 other postemployment benefits plan (OPEB 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 OPEB 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 OPEB Plan and the OPEB Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend OPEB 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 OPEB Plan is financed on a pay-as-you-go basis. For the 2016-17 fiscal year, 95 retirees received postemployment healthcare benefits, and 58 retirees received postemployment life insurance benefits. The College provided required contributions of \$98,608 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 \$395,182, 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 OPEB Plan, and changes in the College's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 78,188
Amortization of Unfunded Actuarial Accrued Liability	<u>40,577</u>
Annual Required Contribution	118,765
Interest on Net OPEB Obligation	9,526
Adjustment to Annual Required Contribution	<u>(11,961)</u>
Annual OPEB Cost (Expense)	116,330
Contribution Toward the OPEB Cost	<u>(98,608)</u>
Increase in Net OPEB Obligation	17,722
Net OPEB Obligation, Beginning of Year	<u>238,139</u>
Net OPEB Obligation, End of Year	<u><u>\$ 255,861</u></u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2017, and for the 2 preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014-15	\$ 115,486	69.5%	\$ 214,460
2015-16	115,397	79.5%	238,139
2016-17	116,330	84.8%	255,861

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 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3.3 percent.

Actuarial valuations for an OPEB 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 OPEB 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 OPEB 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 OPEB 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 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, 2017, and the College's 2016-17 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities 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 6.75 percent pre-Medicare and 5.25 percent Medicare for the 2016-17 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, 2017, was 20 years.

Net Pension Liability. As a participating employer in the Florida Retirement System, the college recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2017, the College's proportionate share of the net pension liabilities totaled \$30,987,270. Note 11. includes a complete discussion of defined benefit pension plans.

11. 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).

The College's FRS and HIS pension expense totaled \$4,150,267 for the fiscal year ended June 30, 2017.

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 table 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>
<u>Regular Class members initially enrolled before July 1, 2011</u>	
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
<u>Regular Class members initially enrolled on or after July 1, 2011</u>	
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
<u>Senior Management Service Class</u>	2.00
<u>Special Risk Class</u>	
Service on and after October 1, 1974	3.00

As provided in Section 121.101, Florida Statutes, if the member was 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 was 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 2016-17 fiscal year were:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.52
FRS, Senior Management Service	3.00	21.77
FRS, Special Risk	3.00	22.57
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	12.99
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 0.06 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 \$1,926,488 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a liability of \$18,292,919 for its

proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.072446979 percent, which was a decrease of 0.002629855 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$2,979,066. 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	\$ 1,400,647	\$ 170,319
Change of assumptions	1,106,667	-
Net difference between projected and actual earnings on FRS Plan investments	4,728,497	-
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	946,012	312,560
College FRS contributions subsequent to the measurement date	1,926,488	-
Total	<u>\$ 10,108,311</u>	<u>\$ 482,879</u>

The deferred outflows of resources \$1,926,488 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, 2018. 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>
2018	\$ 1,163,020
2019	1,163,020
2020	3,006,482
2021	2,034,246
2022	264,277
Thereafter	67,899
Total	<u>\$ 7,698,944</u>

Actuarial Assumptions. The total pension liability in the July 1, 2016, 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	7.60 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, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	100%			
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 7.60 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 7.60 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 (6.60 percent) or 1 percentage point higher (8.60 percent) than the current rate:

	<u>1% Decrease (6.60%)</u>	<u>Current Discount Rate (7.60%)</u>	<u>1% Increase (8.60%)</u>
College's proportionate share of the net pension liability	\$33,678,502	\$18,292,919	\$5,486,453

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.

Payables to the Pension Plan. At June 30, 2017, the College reported a payable of \$270,067 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2017.

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, 2017, 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, 2017, 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 \$583,580 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a net pension liability of \$12,694,351 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within one year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.108921509 percent, which was an increase of 0.001902446 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$1,171,201. 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	\$ -	\$ 28,913
Change of assumptions	1,992,066	-
Net difference between projected and actual earnings on HIS Plan investments	6,419	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	608,801	-
College contributions subsequent to the measurement date	583,580	-
Total	\$ 3,190,866	\$ 28,913

The deferred outflows of resources totaling \$583,580, 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, 2018. 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>
2018	\$ 469,149
2019	469,149
2020	467,927
2021	467,340
2022	402,720
Thereafter	302,088
Total	\$ 2,578,373

Actuarial Assumptions. The total pension liability at July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal bond rate	2.85 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 2.85 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 3.80 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 2.85 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 (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
College's proportionate share of the net pension liability	\$14,563,304	\$12,694,351	\$11,143,221

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.

Payables to the Pension Plan. At June 30, 2017, the College reported a payable of \$38,740 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2017.

12. 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 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2016-17 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, 2017, 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 \$805,848 for the fiscal year ended June 30, 2017.

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, 2.83 percent to cover the unfunded actuarial liability of the FRS pension plan, for a total of 7.98 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 \$146,840 and employee contributions totaled \$85,537 for the 2016-17 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 a 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 \$264,735 for the 2016-17 fiscal year.

13. Other Termination Benefits

The College provides an Internal Revenue Service (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 whose combined vacation and/or sick leave pay out is in excess of \$5,000 are mandated to participate in this program.

The College deferred \$372,743 in salaries for 27 employees during the 2016-17 fiscal year for other termination benefits.

14. 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 2016-17 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 2016-17 fiscal year, the College contributed \$462,889 as matching funds under the Plan.

15. Construction Commitments

The College's major construction commitments at June 30, 2017, were as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Lee Campus - Student Housing Swimming Pool			
Construction	\$ 687,985	\$ 623,517	\$ 64,468
Architect	99,000	97,544	1,456
Materials & Other Construction Exp.	21,566	21,553	13
Total	808,551	742,614	65,937
Lee Campus - Student Activity Center			
Construction	50,353	43,403	6,950
Materials & Other Construction Exp.	29,003	-	29,003
Total	79,356	43,403	35,953
Lee Campus - Student Activity Center Parking			
Construction	36,612	19,103	17,509
Lee Campus - Bldg H Renovation/Remodel			
Construction	96,818	-	96,818
Hendry Glades New Classroom Bldg.			
Construction	12,895	-	12,895
FY17 Minor Project - Lee Loop Road			
Materials & Other Construction Exp.	335,494	33,830	301,664
Total	\$ 1,369,726	\$ 838,950	\$ 530,776

16. 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 also included health and hospitalization, dental, life, fire and extended property, general and automobile liability, workers' compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past 3 fiscal years.

17. 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:

Functional Classification	Amount
Instruction	\$ 30,789,376
Public Services	681
Academic Support	7,914,073
Student Services	13,155,334
Institutional Support	16,917,785
Operation and Maintenance of Plant	12,870,198
Scholarships and Waivers	9,124,637
Depreciation	6,381,555
Auxiliary Enterprises	1,229,434
Total Operating Expenses	\$ 98,383,073

18. 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

	Florida SouthWestern State College Financing Corporation	College	Eliminations	Total Primary Government
Assets:				
Other Current Assets	\$ 3,023,526	\$ 28,094,205	\$ (267,408)	\$ 30,850,323
Capital Assets, Net	19,933,617	156,584,289	-	176,517,906
Other Noncurrent Assets	7,348,575	3,290,379	-	10,638,954
Total Assets	30,305,718	187,968,873	(267,408)	218,007,183
Deferred Outflows of Resources	263,026	13,299,177	-	13,562,203
Liabilities:				
Other Current Liabilities	1,463,922	7,288,046	(267,408)	8,484,560
Noncurrent Liabilities	22,715,036	51,288,697	-	74,003,733
Total Liabilities	24,178,958	58,576,743	(267,408)	82,488,293
Deferred Inflows of Resources	-	511,792	-	511,792
Net Position:				
Net Investment in Capital Assets	165,099	140,064,175	-	140,229,274
Restricted - Nonexpendable	-	624,846	-	624,846
Restricted - Expendable	1,771,330	9,738,449	-	11,509,779
Unrestricted	4,453,357	(8,247,955)	-	(3,794,598)
Total Net Position	\$ 6,389,786	\$ 142,179,515	\$ -	\$ 148,569,301

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

	Florida SouthWestern State College Financing Corporation	College	Eliminations	Total Primary Government
Operating Revenues	\$ 2,729,181	\$ 27,921,254	\$ -	\$ 30,650,435
Depreciation Expense	564,453	5,817,102	-	6,381,555
Other Operating Expenses	910,792	91,090,726	-	92,001,518
Operating Income (Loss)	1,253,936	(68,986,574)	-	(67,732,638)
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	665,063	65,542,955	-	66,208,018
Interest Expense	(884,352)	(572,002)	-	(1,456,354)
Other Nonoperating Expense	(1,366,349)	(2,104,078)	-	(3,470,427)
Net Nonoperating Revenues (Expenses)	(1,585,638)	62,866,875	-	61,281,237
Other Revenues and Expenses	-	4,956,963	-	4,956,963
Decrease in Net Position	(331,702)	(1,162,736)	-	(1,494,438)
Net Position, Beginning of Year	6,721,488	143,342,251	-	150,063,739
Net Position, End of Year	\$ 6,389,786	\$ 142,179,515	\$ -	\$ 148,569,301

Condensed Statement of Cash Flows

	Florida SouthWestern State College Financing Corporation	College	Eliminations	Total Primary Government
Net Cash Provided (Used) by:				
Operating Activities	\$ 1,775,090	\$ (62,438,240)	\$ -	\$ (60,663,150)
Noncapital Financing Activities	561,880	62,092,844	-	62,654,724
Capital and Related Financing Activities	(3,428,997)	(7,119,909)	-	(10,548,906)
Investing Activities	963,855	3,172,810	-	4,136,665
Net Decrease in Cash and Cash Equivalents	(128,172)	(4,292,495)	-	(4,420,667)
Cash and Cash Equivalents, Beginning of Year	4,666,684	17,800,606	-	22,467,290
Cash and Cash Equivalents, End of Year	\$ 4,538,512	\$ 13,508,111	\$ -	\$ 18,046,623

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

	2016 (1)	2015 (1)	2014 (1)	2013 (1)
College's proportion of the FRS net pension liability	0.072446979%	0.075076834%	0.069878863%	0.065525694%
College's proportionate share of the FRS net pension liability	\$ 18,292,919	\$ 9,697,180	\$ 4,263,638	\$ 11,279,888
College's covered payroll (2)	\$ 38,039,195	\$ 36,761,312	\$ 34,166,397	\$ 33,051,575
College's proportionate share of the FRS net pension liability as a percentage of its covered payroll	48.09%	26.38%	12.48%	34.13%
FRS Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%	88.54%

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

(2) Covered payroll includes defined benefit plan actives, investment plan members, State college system optional retirement 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>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required FRS contribution	\$ 1,926,488	\$ 1,103,705	\$ 1,830,437	\$ 1,530,644
FRS contributions in relation to the contractually required contribution	<u>(1,926,488)</u>	<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>	<u>\$ -</u>
College's covered payroll (2)	\$ 39,506,069	\$ 38,039,195	\$ 36,761,312	\$ 34,166,397
FRS contributions as a percentage of covered payroll	4.88%	2.90%	4.98%	4.48%

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

(2) Covered payroll includes defined benefit plan actives, investment plan members, State college system optional retirement 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>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.108921509%	0.107019063%	0.101425459%	0.099636556%
College's proportionate share of the HIS net pension liability	\$ 12,694,351	\$ 10,914,261	\$ 9,483,528	\$ 8,674,672
College's covered payroll (2)	\$ 38,039,195	\$ 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 payroll	33.37%	29.69%	27.76%	26.25%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%	0.99%	1.78%

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

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

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

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 583,580	\$ 558,292	\$ 409,093	\$ 347,450
HIS contributions in relation to the contractually required HIS contribution	<u>(583,580)</u>	<u>(558,292)</u>	<u>(409,093)</u>	<u>(347,450)</u>
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll (2)	\$ 39,506,069	\$ 38,039,195	\$ 36,761,312	\$ 34,166,397
HIS contributions as a percentage of covered payroll	1.48%	1.47%	1.11%	1.02%

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

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

1. Schedule of Funding Progress – Other Postemployment Benefit Plan

The July 1, 2015, unfunded actuarial accrued liability of \$1,070,726 was higher than the July 1, 2013, liability of \$1,047,396 as a result of the following:

- Demographic assumptions (rates of withdrawal, retirement, disability and mortality) were revised to be consistent with those used for the Florida Retirement System (FRS).
- The assumed rates of participation in the Plan were adjusted to reflect current experience.
- The assumed rates of health care inflation used to project the per capita health care costs were revised to reflect recent experience.
- The general payroll growth rate and salary scale assumptions were revised to be consistent with the rates used by the Florida Retirement System (FRS).
- The actuarial cost method was changed from Projected Unit Credit (PUC) to Entry Age Normal (EAN) in anticipation of new disclosure requirements developed by the Governmental Accounting Standards Board (GASB).

2. Schedule of Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan

Changes of Assumptions. The long-term expected rate of return was decreased from 7.65 percent to 7.60 percent, and the active member mortality assumption was updated.

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

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 3.80 percent to 2.85 percent.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida SouthWestern State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 26, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the blended and discretely presented component units, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of 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
March 26, 2018