

**STATE OF FLORIDA AUDITOR GENERAL**

**Financial Audit**

**FLORIDA POLYTECHNIC UNIVERSITY**

For the Fiscal Year Ended  
June 30, 2017



Sherrill F. Norman, CPA  
Auditor General

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During the 2016-17 fiscal year, Dr. Randy K. Avent served as President of Florida Polytechnic University and the following individuals served as Members of the Board of Trustees:

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R. Mark Bostick, Chair through 7-30-16	Jacob Livingston from 4-20-17 <sup>b</sup>
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Dr. James Dewey from 5-02-17 <sup>a</sup>	Clifford "Cliff" K. Otto
Dr. Christina Drake through 5-01-17 <sup>a</sup>	Veronica Perez Herrera through 4-19-17 <sup>b</sup>
Rear Admiral Philip A. Dur, USN (Ret.)	Robert W. Stork
	Gary C. Wendt from 5-17-17 <sup>c</sup>

<sup>a</sup> Faculty Senate Chair.

<sup>b</sup> Student Body President.

<sup>c</sup> Trustee position vacant through 5-16-17.

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 Gregory J. Lemieux, CPA, and the supervisor was Mark A. Arroyo, CPA.

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

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**FLORIDA POLYTECHNIC UNIVERSITY**  
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## SUMMARY

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### SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

### SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

### AUDIT OBJECTIVES AND SCOPE

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

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

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

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

### AUDIT METHODOLOGY

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

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



Phone: (850) 412-2722  
Fax: (850) 488-6975

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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Florida Polytechnic University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit's columns. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the

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

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

### ***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Polytechnic University and of its discretely presented component unit as of June 30, 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 University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of University Contributions – Florida Retirement System Pension Plan**, **Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of University Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated March 13, 2018, on our consideration of the Florida Polytechnic University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant

agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Polytechnic University's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 13, 2018

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

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Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University 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 University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2017, and June 30, 2016.

### **FINANCIAL HIGHLIGHTS**

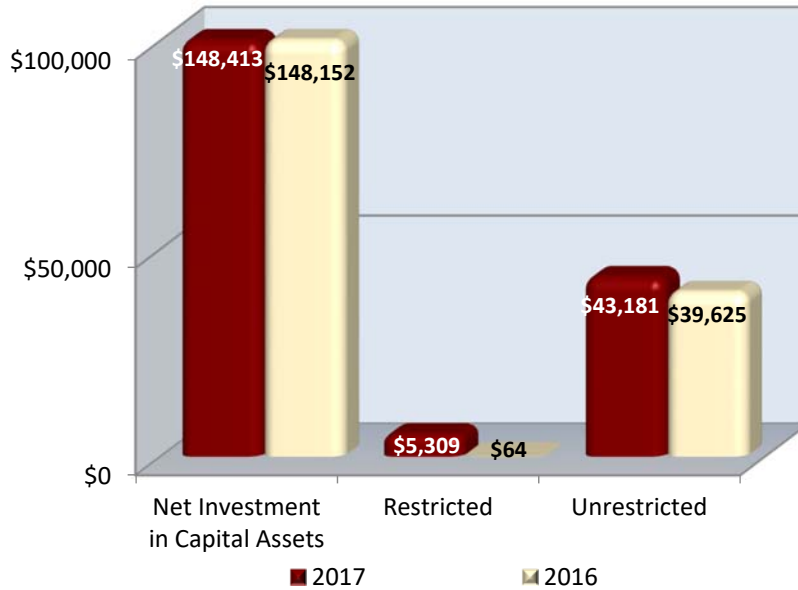
The University's assets and deferred outflows of resources totaled \$219.4 million at June 30, 2017. This balance reflects a \$13.2 million, or 6.4 percent, increase as compared to the 2015-16 fiscal year, resulting from increased investments and receivables from government agencies. While assets and deferred outflows of resources grew, liabilities and deferred inflows of resources increased by \$4.1 million, or 22.6 percent, totaling \$22.5 million at June 30, 2017, resulting from increased net pension liability and amounts due to component unit. As a result, the University's net position increased by \$9.1 million, resulting in a year-end balance of \$196.9 million.

The University's operating revenues totaled \$8.5 million for the 2016-17 fiscal year, representing a 37.9 percent increase compared to the 2015-16 fiscal year due mainly to increases in auxiliary revenues, and grants and contract due to increasing financial aid awards. Operating expenses totaled \$46.4 million for the 2016-17 fiscal year, representing an increase of 6.9 percent as compared to the 2015-16 fiscal year due mainly to additional faculty and staff.

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

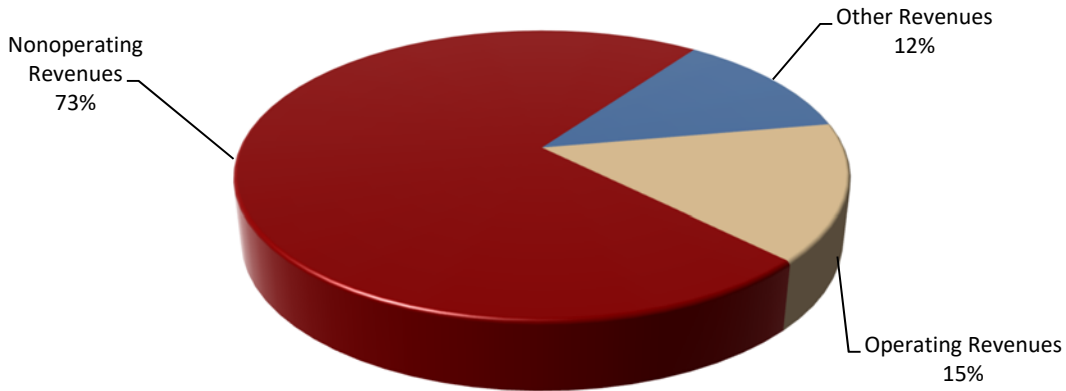


**Net Position  
(In Thousands)**



The following chart provides a graphical presentation of University revenues by category for the 2016-17 fiscal year:

**Total Revenues  
2016-17 Fiscal Year**



**OVERVIEW OF FINANCIAL STATEMENTS**

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

Information regarding the component unit's separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the discretely presented component unit.

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

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

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

#### **Condensed Statement of Net Position at June 30**

(In Thousands)

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current Assets	\$ 50,069	\$ 38,168
Capital Assets, Net	150,917	150,805
Other Noncurrent Assets	<u>11,063</u>	<u>12,305</u>
<b>Total Assets</b>	<u>212,049</u>	<u>201,278</u>
<b>Deferred Outflows of Resources</b>	<u>7,343</u>	<u>4,909</u>
<b>Liabilities</b>		
Current Liabilities	10,581	8,868
Noncurrent Liabilities	<u>11,848</u>	<u>8,800</u>
<b>Total Liabilities</b>	<u>22,429</u>	<u>17,668</u>
<b>Deferred Inflows of Resources</b>	<u>60</u>	<u>678</u>
<b>Net Position</b>		
Net Investment in Capital Assets	148,413	148,152
Restricted	5,309	64
Unrestricted	<u>43,181</u>	<u>39,625</u>
<b>Total Net Position</b>	<u>\$196,903</u>	<u>\$187,841</u>

Assets increased \$10.8 million due primarily to capital appropriations due from the State, and increases in cash and investments as a result of increases in State noncapital appropriations, grants and contracts, and student tuition and fees, and as a result of a noncurrent receivable due from the Foundation.

Deferred outflows of resources increased \$2.4 million primarily due to an increase in projected and actual earnings on Florida Retirement System (FRS) plan investments and changes in the proportionate share of contributions.

Total liabilities increased \$4.8 million primarily as a result of increased net pension liability related to increased staffing levels.

Deferred inflows of resources decreased \$0.6 million primarily due to a reduction in projected and actual earnings on FRS investments.

Net position is reported in three major categories. The first category, net invested in capital assets, provides the University's equity in property, plant and equipment owned by the University. Restricted expendable net position is available for use by the University, but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position and is available for any lawful purpose of the University.

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

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

The following summarizes the University's activity for the 2016-17 and 2015-16 fiscal years:

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

(In Thousands)

	<b>2016-17</b>	<b>2015-16</b>
Operating Revenues	\$ 8,502	\$ 6,167
Less, Operating Expenses	46,387	43,398
<b>Operating Loss</b>	(37,885)	(37,231)
Net Nonoperating Revenues	40,064	36,221
<b>Income (Loss) Before Other Revenues</b>	2,179	(1,010)
Other Revenues	6,883	35
<b>Net Increase (Decrease) In Net Position</b>	9,062	(975)
Net Position, Beginning of Year	187,841	188,816
<b>Net Position, End of Year</b>	\$ 196,903	\$ 187,841

### **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.

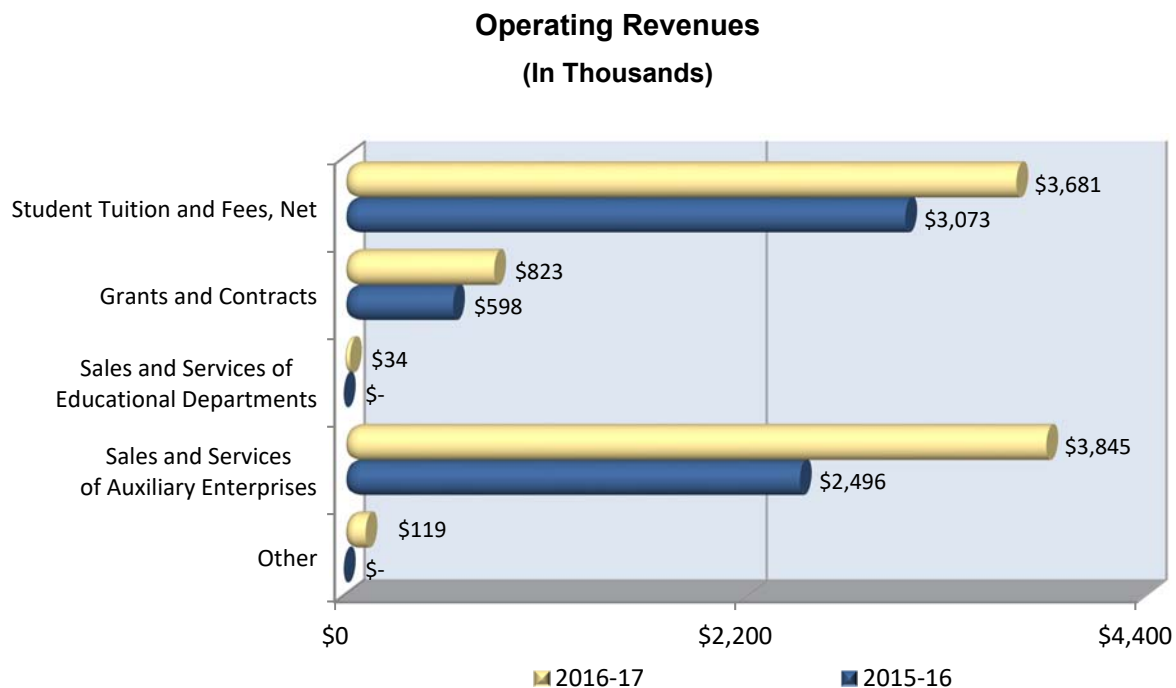
The following summarizes the operating revenues by source that were used to fund operating activities for the 2016-17 and 2015-16 fiscal years:

## Operating Revenues For the Fiscal Years

(In Thousands)

	2016-17	2015-16
Student Tuition and Fees, Net	\$ 3,681	\$ 3,073
Grants and Contracts	823	598
Sales and Services of Educational Departments	34	-
Sales and Services of Auxiliary Enterprises	3,845	2,496
Other	119	-
<b>Total Operating Revenues</b>	<b>\$ 8,502</b>	<b>\$ 6,167</b>

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



University operating revenue changes were the result of the following factors: an increase in sales of auxiliary services from increased bookstore revenues.

### **Operating Expenses**

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

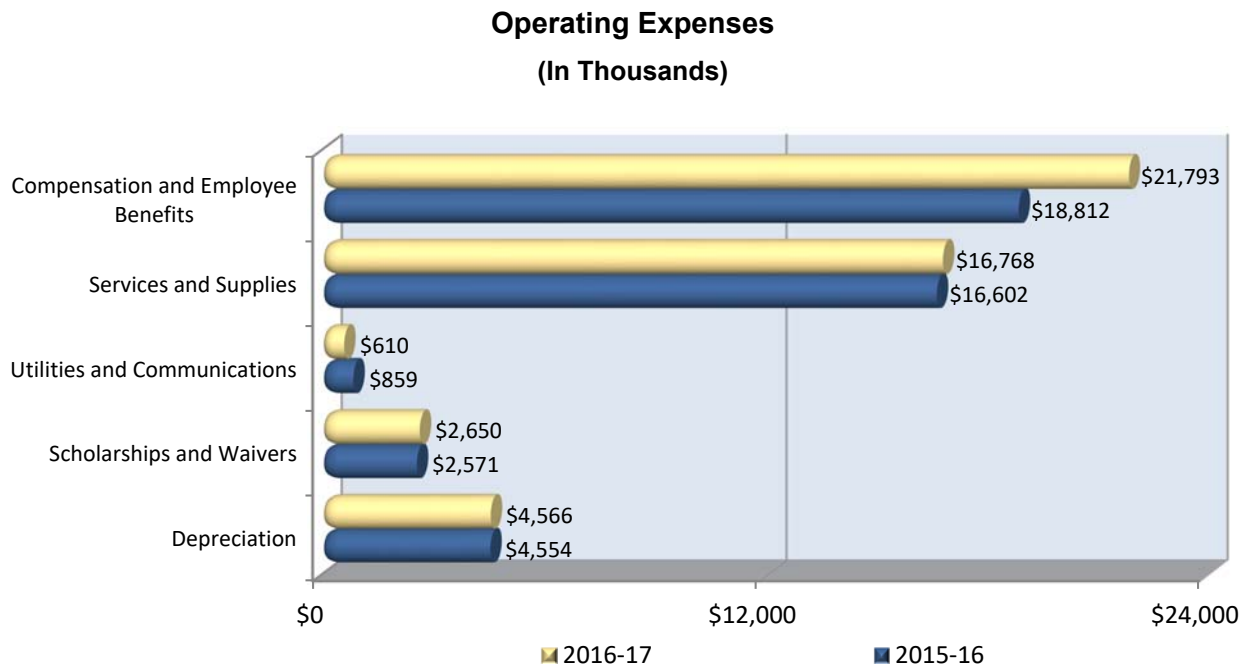
The following summarizes operating expenses by natural classification for the 2016-17 and 2015-16 fiscal years:

## Operating Expenses For the Fiscal Years

(In Thousands)

	2016-17	2015-16
Compensation and Employee Benefits	\$ 21,793	\$ 18,812
Services and Supplies	16,768	16,602
Utilities and Communications	610	859
Scholarships and Waivers	2,650	2,571
Depreciation	4,566	4,554
<b>Total Operating Expenses</b>	<b>\$ 46,387</b>	<b>\$ 43,398</b>

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



Changes in operating expenses were the result of the increase in compensation and benefits due to increased faculty and staff levels.

### **Nonoperating Revenues and Expenses**

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, and investment income are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2016-17 and 2015-16 fiscal years:

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

	<b>2016-17</b>	<b>2015-16</b>
State Noncapital Appropriations	\$ 36,735	\$ 34,073
Federal and State Student Financial Aid	2,972	1,076
Investment Income	699	615
Unrealized Gain (Loss) on Investments	(378)	599
Other Nonoperating Revenues	101	8
Loss on Disposal of Capital Assets	(12)	(98)
Interest on Capital Asset-Related Debt	(53)	(52)
<b>Net Nonoperating Revenues</b>	<b>\$ 40,064</b>	<b>\$ 36,221</b>

Net nonoperating revenues increased \$3.8 million primarily due to increased State noncapital appropriations and increased Federal and State Student Financial Aid.

**Other Revenues**

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues for the 2016-17 and 2015-16 fiscal years:

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

	<b>2016-17</b>	<b>2015-16</b>
State Capital Appropriations	\$ 5,083	\$ 10
Capital Grants, Contracts, Donations, and Fees	1,800	25
<b>Total</b>	<b>\$ 6,883</b>	<b>\$ 35</b>

Other revenues increased primarily due to capital contributions from our housing and food service providers and Public Education Capital Outlay (PECO) appropriations recognized this fiscal year for the Applied Research Center.

**The Statement of Cash Flows**

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

The following summarizes cash flows for the 2016-17 and 2015-16 fiscal years:

**Condensed Statement of Cash Flows  
For the Fiscal Years**

(In Thousands)

	<b>2016-17</b>	<b>2015-16</b>
Cash Provided (Used) by:		
Operating Activities	\$ (38,522)	\$ (30,596)
Noncapital Financing Activities	41,305	35,196
Capital and Related Financing Activities	(3,063)	(6,285)
Investing Activities	(942)	2,007
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,222)	322
Cash and Cash Equivalents, Beginning of Year	1,422	1,100
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 200</b>	<b>\$ 1,422</b>

Major sources of funds came from State noncapital appropriations (\$36.7 million), Federal and State student financial aid (\$3 million), net student tuition and fees (\$3.1 million), sales and services of auxiliary enterprises (\$3.8 million), and capital grants, contracts, donations and fees (\$1.8 million). Major uses of funds were for payments made to and on behalf of employees totaling \$21.3 million; payments to suppliers totaling \$18 million; payments to and on behalf of students for scholarships totaling \$7.2 million; and purchases of capital assets totaling \$3.9 million. Changes in cash and cash equivalents were the result of an increase in the faculty and staff level, increased purchases of capital assets, and increased payments to suppliers.

**CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS,  
AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2017, the University had \$164.6 million in capital assets, less accumulated depreciation of \$13.7 million, for net capital assets of \$150.9 million. Depreciation charges for the current fiscal year totaled \$4.6 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

**Capital Assets, Net at June 30**

(In Thousands)

	<b>2017</b>	<b>2016</b>
Land	\$ 18,156	\$ 18,156
Construction in Progress	6,112	2,703
Buildings	83,894	85,856
Infrastructure and Other Improvements	33,834	35,435
Furniture and Equipment	5,615	4,887
Library Resources	5	9
Other Capital Assets	3,301	3,759
<b>Capital Assets, Net</b>	<b>\$150,917</b>	<b>\$150,805</b>

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

**Capital Expenses and Commitments**

Major capital expenses through June 30, 2017, were incurred on the following projects: expansion of the wellness center and parking lot construction. The University’s construction commitments at June 30, 2017, are as follows:

	<b>Amount (In Thousands)</b>
Total Committed	\$ 11,152
Completed to Date	<u>(6,112)</u>
<b>Balance Committed</b>	<b><u>\$ 5,040</u></b>

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

**Debt Administration**

As of June 30, 2017, the University had \$2.5 million in outstanding installment purchases payable representing a decrease of \$0.1 million, or 5.6 percent, from the prior fiscal year.

**ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

The University’s economic condition is closely tied to that of the State of Florida. The budget that the Florida Legislature adopted for the 2017-18 fiscal year provided a 4.86 percent increase for the State University System. The University’s budget increased by 3.87 percent over the same period. The University expects an increase in revenue from student tuition and fees due to increased enrollment as we enter our fifth year of operations.

**REQUESTS FOR INFORMATION**

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Mark Mroczkowski, Vice President/Chief Financial Officer, Florida Polytechnic University, 4700 Research Way, Lakeland, Florida 33805-8531.



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# BASIC FINANCIAL STATEMENTS

## FLORIDA POLYTECHNIC UNIVERSITY A Component Unit of the State of Florida Statement of Net Position

June 30, 2017

	<u>University</u>	<u>Component Unit</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 199,887	\$ 402,511
Investments	42,412,660	-
Accounts Receivable, Net	1,063,152	-
Interest Receivable	72,261	-
Contributions Receivable, Net	-	1,205,043
Due from State	5,082,353	-
Due from Component Unit/University	1,207,763	6,364,404
Other Current Assets	30,807	-
<b>Total Current Assets</b>	<u>50,068,883</u>	<u>7,971,958</u>
Noncurrent Assets:		
Contributions Receivable, Net	-	135,096
Restricted Investments	6,364,404	-
Due from Component Unit	4,698,053	-
Depreciable Capital Assets, Net	126,648,880	-
Nondepreciable Capital Assets	24,268,402	-
<b>Total Noncurrent Assets</b>	<u>161,979,739</u>	<u>135,096</u>
<b>Total Assets</b>	<u>212,048,622</u>	<u>8,107,054</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Amounts Related to Pensions	7,342,968	-
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	1,877,124	32,474
Construction Contracts Payable	200,929	-
Salary and Wages Payable	442,905	-
Deposits Payable	40,126	-
Due to Component Unit/University	6,364,404	1,207,763
Unearned Revenue	351,235	-
Other Current Liabilities	-	2,920,825
Long-Term Liabilities - Current Portion:		
Installment Purchases Payable	994,990	-
Compensated Absences Payable	118,188	-
Net Pension Liability	190,702	-
<b>Total Current Liabilities</b>	<u>10,580,603</u>	<u>4,161,062</u>

**FLORIDA POLYTECHNIC UNIVERSITY**  
**A Component Unit of the State of Florida**  
**Statement of Net Position (Continued)**

**June 30, 2017**

	<b>University</b>	<b>Component Unit</b>
<b>LIABILITIES (Continued)</b>		
Noncurrent Liabilities:		
Installment Purchases Payable	1,509,271	-
Compensated Absences Payable	1,063,691	-
Other Postemployment Benefits Payable	880,000	-
Due to University	-	4,698,053
Net Pension Liability	8,394,689	-
<b>Total Noncurrent Liabilities</b>	11,847,651	4,698,053
<b>Total Liabilities</b>	22,428,254	8,859,115
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Amounts Related to Pensions	60,102	-
<b>NET POSITION</b>		
Net Investment in Capital Assets	148,413,021	-
Restricted for Nonexpendable:		
Endowment	-	839,763
Restricted for Expendable:		
Capital Projects	5,082,353	-
Grants and Programs	226,976	-
Other	-	840,397
Unrestricted	43,180,884	(2,432,221)
<b>TOTAL NET POSITION</b>	<b>\$ 196,903,234</b>	<b>\$ (752,061)</b>

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

**FLORIDA POLYTECHNIC UNIVERSITY**  
**A Component Unit of the State of Florida**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2017**

	<b>University</b>	<b>Component Unit</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$3,086,278	\$ 3,680,643	\$ -
Federal Grants and Contracts	321,956	-
State and Local Grants and Contracts	170,957	-
Nongovernmental Grants and Contracts	329,797	-
Sales and Services of Educational Departments	33,928	-
Sales and Services of Auxiliary Enterprises	3,845,053	-
Interest on Loans and Notes Receivable	-	94,649
Other Operating Revenues	119,482	1,522,070
<b>Total Operating Revenues</b>	<b>8,501,816</b>	<b>1,616,719</b>
<b>EXPENSES</b>		
Operating Expenses:		
Compensation and Employee Benefits	21,792,564	-
Services and Supplies	16,767,986	-
Utilities and Communications	610,379	-
Scholarships and Waivers	2,649,519	-
Depreciation	4,566,153	-
Other Operating Expenses	-	5,855,896
<b>Total Operating Expenses</b>	<b>46,386,601</b>	<b>5,855,896</b>
<b>Operating Loss</b>	<b>(37,884,785)</b>	<b>(4,239,177)</b>
<b>NONOPERATING REVENUES</b>		
State Noncapital Appropriations	36,734,846	-
Federal and State Student Financial Aid	2,972,161	-
Investment Income	699,284	-
Other Nonoperating Revenues	100,732	-
Loss on Disposal of Capital Assets	(11,596)	-
Unrealized Loss on Investment	(378,498)	-
Interest on Capital Asset-Related Debt	(52,877)	-
<b>Net Nonoperating Revenues</b>	<b>40,064,052</b>	<b>-</b>
<b>Income (Loss) Before Other Revenues</b>	<b>2,179,267</b>	<b>(4,239,177)</b>
State Capital Appropriations	5,082,353	-
Capital Grants, Contracts, Donations, and Fees	1,800,195	-
<b>Increase (Decrease) in Net Position</b>	<b>9,061,815</b>	<b>(4,239,177)</b>
Net Position, Beginning of Year	187,841,419	3,487,116
<b>Net Position, End of Year</b>	<b>\$ 196,903,234</b>	<b>\$ (752,061)</b>

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

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**FLORIDA POLYTECHNIC UNIVERSITY**  
**A Component Unit of the State of Florida**  
**Statement of Cash Flows**

**For the Fiscal Year Ended June 30, 2017**

	<b>University</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student Tuition and Fees, Net	\$ 3,093,904
Grants and Contracts	822,710
Sales and Services of Educational Departments	33,928
Sales and Services of Auxiliary Enterprises	3,845,053
Payments to Employees	(21,331,058)
Payments to Suppliers for Goods and Services	(17,951,148)
Payments to Students for Scholarships	(7,155,550)
Other Operating Receipts	119,482
	<b>(38,522,679)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Noncapital Appropriations	36,734,846
Federal and State Student Financial Aid	2,972,161
Net Change in Funds Held for Others	1,598,173
	<b>41,305,180</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital Grants, Contracts, Donations and Fees	1,800,195
Proceeds from Sale of Capital Assets	842
Purchase or Construction of Capital Assets	(3,900,911)
Principal Paid on Capital Debt	(909,920)
Interest Paid on Capital Debt	(52,877)
	<b>(3,062,671)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	43,518,912
Purchases of Investments	(45,152,946)
Investment Income	691,871
	<b>(942,163)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(1,222,333)</b>
Cash and Cash Equivalents, Beginning of Year	1,422,220
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 199,887</b>

**FLORIDA POLYTECHNIC UNIVERSITY**  
**A Component Unit of the State of Florida**  
**Statement of Cash Flows (Continued)**  
**For the Fiscal Year Ended June 30, 2017**

	<b>University</b>
<b>RECONCILIATION OF OPERATING LOSS</b>	
<b>TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (37,884,785)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,566,153
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	(935,540)
Due from Component Unit	(4,506,031)
Other Assets	(2,434)
Accounts Payable	(572,783)
Salaries and Wages Payable	166,658
Compensated Absences Payable	(1,180,275)
Unearned Revenue	351,235
Other Postemployment Benefits Payable	410,000
Net Pension Liability	4,116,972
Deferred Outflows of Resources Related to Pensions	(2,433,899)
Deferred Inflows of Resources Related to Pensions	(617,950)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (38,522,679)</b>

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

Unrealized losses on investments were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (378,498)
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (11,596)
The University entered into installment purchase agreements, which were recognized on the statement of net position, but are not cash transactions for the statement of cash flows.	\$ 761,678

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

# **NOTES TO FINANCIAL STATEMENTS**

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

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

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

**Discretely Presented Component Unit.** Based on the application of the criteria for determining component units, the Florida Polytechnic University Foundation, Inc. (Foundation), a legally separate entity, is included within the University's reporting entity as a discretely presented component unit, and is governed by a separate board. The Statutes authorize this organization to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. The Foundation solicits, collects, manages, and directs contributions to various academic departments and programs of the University, and assists the University in fundraising, and public relations.

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

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



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

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

The University's discretely presented component unit uses the economic resources measurement focus and the accrual basis of accounting, and follows FASB standards of accounting and financial reporting for not-for-profit organizations.

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

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, and investment income. Unrealized losses on investments and interest on capital asset-related debt are nonoperating expenses. 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 University's policy to first apply the restricted resources to such programs, followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is actually paid by the student or the third party making payment on behalf of the student. The University applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net

tuition scholarship allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party aid.

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

**Cash and Cash Equivalents.** Cash and cash equivalents consist of cash on hand and cash in demand accounts. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes.

**Capital Assets.** University capital assets consist of land, construction in progress, buildings, infrastructure and other improvements, furniture and equipment, library resources, and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at acquisition value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$5,000 for tangible personal property, \$100,000 for infrastructure and other improvements, and \$250,000 for building renovations except that all new buildings and projects adding new square footage are capitalized. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 20 to 50 years
- Infrastructure and Other Improvements – 20 years
- Furniture and Equipment – 3 to 15 years
- Library Resources – 10 years
- Other Capital Assets – 10 years

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

**Pensions.** For purposes of measuring the net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net 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. Investments**

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The Board of Trustees has adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; 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.

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

The University 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.

### **External Investment Pools**

The University reported investments at fair value totaling \$48,777,064 at June 30, 2017, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities (Level 3 inputs). 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 University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

### 3. Receivables

**Accounts Receivable.** Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, and various sales and services provided to students and third parties. As of June 30, 2017, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 401,766
Student Tuition and Fees	90,269
Sales and Services	571,117
<b>Total Accounts Receivable</b>	<b>\$ 1,063,152</b>

**Allowance for Doubtful Receivables.** Allowances for doubtful accounts, and loans and notes receivable, are reported based on management's best estimate as of fiscal year end considering type, age, collection history, and other factors considered appropriate. Accounts receivable are reported net of allowances of \$93,228 at June 30, 2017.

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

### 4. Due From State

The amount due from State consists of \$5,082,353 of Public Education Capital Outlay (PECO) funds due from the State to the University for construction of University facilities.

### 5. Due From and To Component Unit/University

The \$5,905,816 amount due from component unit consists of pledged amounts owed to the University by the Foundation. The Foundation pledged to fund certain scholarships and other expenses for the University. At June 30, 2017, the amount outstanding pledged for the fiscal year ended June 30, 2016, was \$1,170,000 and the outstanding amount pledged for the year ended June 30, 2017, was \$4,735,816. The Foundation has agreed to pay the amounts related to scholarships in equal installments over ten years bearing no interest. Payments for non-scholarship pledges are due in the fiscal year ending June 30, 2018. The \$6,364,404 reported as due to component unit consists of amounts owed by the University to the Foundation pursuant to an agreement to invest funds on behalf of the Foundation.

Below is a summary of the amounts to be paid from the Foundation:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 1,207,763
2019	587,257
2020	587,257
2021	587,257
2022	587,257
2023-2026	2,349,025
<b>Total Payments</b>	<b>\$ 5,905,816</b>

## 6. 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	\$ 18,156,039	\$ -	\$ -	\$ 18,156,039
Construction in Progress	2,702,667	3,409,696	-	6,112,363
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 20,858,706</b>	<b>\$ 3,409,696</b>	<b>\$ -</b>	<b>\$ 24,268,402</b>
Depreciable Capital Assets:				
Buildings	\$ 89,682,597	\$ -	\$ -	\$ 89,682,597
Infrastructure and Other Improvements	38,646,105	-	-	38,646,105
Furniture and Equipment	6,213,471	1,280,730	14,296	7,479,905
Library Resources	16,358	-	-	16,358
Other Capital Assets	4,495,984	-	-	4,495,984
<b>Total Depreciable Capital Assets</b>	<b>139,054,515</b>	<b>1,280,730</b>	<b>14,296</b>	<b>140,320,949</b>
Less, Accumulated Depreciation:				
Buildings	3,826,229	1,962,506	-	5,788,735
Infrastructure and Other Improvements	3,211,121	1,600,468	-	4,811,589
Furniture and Equipment	1,326,704	540,521	2,700	1,864,525
Library Resources	7,895	3,927	-	11,822
Other Capital Assets	736,667	458,731	-	1,195,398
<b>Total Accumulated Depreciation</b>	<b>9,108,616</b>	<b>4,566,153</b>	<b>2,700</b>	<b>13,672,069</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 129,945,899</b>	<b>\$ (3,285,423)</b>	<b>\$ 11,596</b>	<b>\$ 126,648,880</b>

## 7. Unearned Revenue

Unearned revenue of \$351,235 at June 30, 2017, consists of student tuition and fees received prior to fiscal year end related to subsequent accounting periods.

## 8. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2017, include installment purchases payable, compensated absences payable, other postemployment benefits payable, and net pension liability. Long-term liabilities activity for the fiscal year ended June 30, 2017, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Installment Purchases Payable	\$ 2,652,503	\$ 761,678	\$ 909,920	\$ 2,504,261	\$ 994,990
Compensated Absences Payable	2,362,154	1,181,879	2,362,154	1,181,879	118,188
Other Postemployment					
Benefits Payable	470,000	412,000	2,000	880,000	-
Net Pension Liability	4,468,420	9,082,750	4,965,779	8,585,391	190,702
<b>Total Long-Term Liabilities</b>	<b>\$ 9,953,077</b>	<b>\$ 11,438,307</b>	<b>\$ 8,239,853</b>	<b>\$ 13,151,531</b>	<b>\$ 1,303,880</b>

**Installment Purchases Payable.** The University has entered into several installment purchase agreements for the purchase of equipment totaling \$4,858,735. The stated interest rates ranged from 1.21 percent to 4.75 percent. Future minimum payments remaining under installment purchase agreements and the present value of the minimum payments as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 1,042,265
2019	1,042,265
2020	323,443
2021	181,392
	<hr/>
<b>Total Minimum Payments</b>	2,589,365
Less, Amount Representing Interest	85,104
	<hr/>
<b>Present Value of Minimum Payments</b>	<b>\$ 2,504,261</b>
	<hr/> <hr/>

**Compensated Absences Payable.** Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee’s unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2017, the estimated liability for compensated absences, which includes the University’s share of the Florida Retirement System and FICA contributions, totaled \$1,181,879. The current portion of the compensated absences liability, \$118,188, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

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

*Plan Description.* Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer defined benefit (OPEB) Plan. The University subsidizes the premium rates paid by retirees by allowing them to participate in the 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. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the OPEB Plan information 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 benefits and contributions can be amended by the Florida Legislature. The State has not advance-funded OPEB costs or the net OPEB obligation. Premiums necessary for funding the OPEB

Plan each year on a pay-as-you-go basis are established by the Governor's recommended budget and the General Appropriations Act. Although the University currently has no retirees, the University provided required contributions of \$2,000 toward the annual OPEB administrative expenses.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 291,000
Amortization of Unfunded Actuarial Accrued Liability	103,000
Interest on Normal Cost and Amortization	<u>16,000</u>
<b>Annual Required Contribution</b>	410,000
Interest on Net OPEB Obligation	19,000
Adjustment to Annual Required Contribution	<u>(17,000)</u>
<b>Annual OPEB Cost (Expense)</b>	412,000
Contribution Toward the OPEB Cost	<u>(2,000)</u>
<b>Increase in Net OPEB Obligation</b>	410,000
Net OPEB Obligation, Beginning of Year	<u>470,000</u>
<b>Net OPEB Obligation, End of Year</b>	<u><u>\$ 880,000</u></u>

The University'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>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014-15	\$ 32,000	0.0%	\$ 65,000
2015-16	406,000	0.2%	470,000
2016-17	412,000	0.5%	880,000

*Funded Status and Funding Progress.* As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$2,464,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$2,464,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$9,232,755 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 26.7 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 actuarial valuations used actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The University's OPEB actuarial valuation as of July 1, 2015, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2017, and the University's 2016-17 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the University's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year and an inflation rate of 3 percent. Initial healthcare cost trend rates were 4.4 percent, 8.5 percent, and 9.3 percent for the first 3 years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 3.5 percent, 6.6 percent, and 7.5 percent for the first 3 years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates both grade down to an ultimate rate of 3.9 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2017, was 28 years.

**Net Pension Liability.** As a participating employer in the Florida Retirement System, the University recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2017, the University's proportionate share of the net pension liabilities totaled \$8,585,391. Note 9. includes a complete discussion of defined benefit pension plans.

## **9. Retirement Plans – Defined Benefit Pension Plans**

### **General Information about the Florida Retirement System (FRS)**

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (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 Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit



pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class employed by the State and faculty and specified employees in the State university system.

Essentially all regular employees of the University are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services Web site ([www.dms.myflorida.com](http://www.dms.myflorida.com)).

The University's FRS and HIS pension expense totaled \$1,963,926 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 at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost of living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS-participating employer. An employee may participate in DROP for a period not to exceed

60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

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

<b><u>Class, Initial Enrollment, and Retirement Age/Years of Service</u></b>	<b><u>% Value</u></b>
<b><u>Regular Class members initially enrolled before July 1, 2011</u></b>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<b><u>Regular Class members initially enrolled on or after July 1, 2011</u></b>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<b><u>Senior Management Service Class</u></b>	2.00
<b><u>Special Risk Class</u></b>	
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 University's contributions to the Plan totaled \$741,775 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 University reported a liability of \$5,765,319 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 University's proportionate share of the net pension liability was based on the University's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the University's proportionate share was 0.022832875 percent, which was an increase of 0.002834544 from its proportionate share measured as of June 30, 2015.

For the year ended June 30, 2017, the University recognized pension expense of \$1,439,189. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 441,437	\$ 53,679
Change of assumptions	348,785	-
Net difference between projected and actual earnings on FRS Plan investments	1,490,265	-
Changes in proportion and differences between University contributions and proportionate share of contributions	2,235,646	-
University FRS contributions subsequent to the measurement date	741,775	-
<b>Total</b>	<u>\$ 5,257,908</u>	<u>\$ 53,679</u>

The deferred outflows of resources totaling \$ 741,775, resulting from University 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	\$ 866,832
2019	866,832
2020	1,447,829
2021	998,669
2022	228,641
Thereafter	53,651
<b>Total</b>	<b>\$ 4,462,454</b>

*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%
<b>Total</b>	<b>100%</b>			
Assumed inflation - Mean			2.6%	1.9%

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

*Discount Rate.* The discount rate used to measure the total pension liability was 7.60 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 University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60 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>
University's proportionate share of the net pension liability	\$10,614,342	\$5,765,319	\$1,729,147

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

### **HIS Pension Plan**

*Plan Description.* The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes. 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 Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

*Contributions.* The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2017, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The University contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The University's contributions to the HIS Plan totaled \$160,421 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 University reported a liability of \$2,820,072 for its proportionate share of the net pension liability. The current portion of the net pension liability is the University's proportionate share of benefit payments expected to be paid within one year, net of the University's proportionate share of the 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 University's proportionate share of the net pension liability was based on the University's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the University's proportionate share was 0.024197096 percent, which was an increase of 0.005710261 percent from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the University recognized pension expense of \$524,737. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 6,423
Change of assumptions	442,541	-
Net difference between projected and actual earnings on HIS Plan investments	1,426	-
Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions	1,480,672	-
University HIS contributions subsequent to the measurement date	160,421	-
<b>Total</b>	<b>\$ 2,085,060</b>	<b>\$ 6,423</b>

The deferred outflows of resources totaling \$160,421 resulting from University 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	\$ 368,775
2019	368,775
2020	368,504
2021	368,373
2022	274,649
Thereafter	169,140
<b>Total</b>	<b>\$ 1,918,216</b>

*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 University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 2.85 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	<u>1% Decrease (1.85%)</u>	<u>Current Discount Rate (2.85%)</u>	<u>1% Increase (3.85%)</u>
University's proportionate share of the net pension liability	\$3,235,262	\$2,820,072	\$2,475,485

*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 Comprehensive Annual Financial Report.

## **10. 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. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the 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 FRS Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 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 University.

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

The University's Investment Plan pension expense totaled \$219,459 for the fiscal year ended June 30, 2017.

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes 5.14 percent of the participant's salary to the participant's account, 2.83 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover administrative costs, 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 University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The University's contributions to the Program totaled \$485,970, and employee contributions totaled \$330,548 for the 2016-17 fiscal year.

## 11. Construction Commitments

The University's 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>
Parking Lots 6 and 8	\$ 1,700,000	\$ 1,546,986	\$ 153,014
Recreation Building	2,637,000	1,249,355	1,387,645
Aquatic Center	1,997,954	163,474	1,834,480
Wellness Center Expansion	2,275,000	2,149,753	125,247
<b>Subtotal</b>	<b>8,609,954</b>	<b>5,109,568</b>	<b>3,500,386</b>
Other Projects (1)	2,542,136	1,002,795	1,539,341
<b>Total</b>	<b>\$ 11,152,090</b>	<b>\$ 6,112,363</b>	<b>\$ 5,039,727</b>

## 12. Risk Management Programs

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2016-17 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$85 million for named windstorm and flood through February 14, 2017, and increased to \$92.5 million starting February 15, 2017. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million through February 14, 2017, and increased to \$225 million starting February 15, 2017; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past 3 fiscal years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain healthcare services through participation in the State group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities

associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

### 13. Functional Distribution of Operating Expenses

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 6,286,202
Research	3,045,399
Public Services	1,446
Academic Support	6,050,958
Student Services	2,548,730
Institutional Support	14,810,558
Operation and Maintenance of Plant	2,782,685
Scholarships, Fellowships, and Waivers	2,733,621
Depreciation	4,566,153
Auxiliary Enterprises	3,560,849
<b>Total Operating Expenses</b>	<b><u><u>\$ 46,386,601</u></u></b>

## OTHER REQUIRED SUPPLEMENTARY INFORMATION

### Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2013	\$ -	\$ 257,000	\$ 257,000	0%	\$ 4,420,523	5.8%
7/1/2015	-	2,464,000	2,464,000	0%	7,174,213	34.3%

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

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

	2016 (1)	2015 (1)	2014 (1)	2013 (1)
University's proportion of the FRS net pension liability	0.022832875%	0.019998331%	0.009648015%	0.000813120%
University's proportionate share of the FRS net pension liability	\$ 5,765,319	\$ 2,583,054	\$ 588,671	\$ 139,974
University's covered payroll (2)	\$ 11,660,838	\$ 8,912,958	\$ 4,212,980	\$ 348,928
University's proportionate share of the FRS net pension liability as a percentage of its covered payroll	49.44%	28.98%	13.97%	40.12%
FRS Plan fiduciary net position as a percentage of the FRS 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 university system optional retirement program members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

### Schedule of University Contributions – Florida Retirement System Pension Plan

	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 741,775	\$ 563,074	\$ 487,576	\$ 211,332
FRS contributions in relation to the contractually required contribution	(741,775)	(563,074)	(487,576)	(211,332)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
University's covered payroll (2)	\$ 15,360,481	\$ 11,660,838	\$ 8,912,958	\$ 4,212,980
FRS contributions as a percentage of covered payroll	4.83%	4.83%	5.47%	5.02%

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, State university system optional retirement program members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

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

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
University's proportion of the HIS net pension liability	0.024197096%	0.018486835%	0.009545059%	0.000943115%
University's proportionate share of the HIS net pension liability	\$ 2,820,072	\$ 1,885,366	\$ 892,486	\$ 82,111
University's covered payroll (2)	\$ 7,298,830	\$ 5,391,296	\$ 2,508,042	\$ 55,192
University's proportionate share of the HIS net pension liability as a percentage of its covered payroll	38.64%	34.97%	35.58%	148.77%
HIS Plan fiduciary net position as a percentage of the HIS 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 University 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	\$ 160,421	\$ 121,161	\$ 70,668	\$ 32,698
HIS contributions in relation to the contractually required HIS contribution	(160,421)	(121,161)	(70,668)	(32,698)
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
University's covered payroll (2)	\$ 9,232,755	\$ 7,298,830	\$ 5,391,296	\$ 2,508,042
HIS contributions as a percentage of covered payroll	1.74%	1.66%	1.31%	1.30%

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**

For the July 1, 2015, valuation, the following key assumptions were modified to reflect current experience: (1) the per capita claims cost assumption increased, (2) retiree contributions were not as high as expected (3) the healthcare trend rate assumption was revised, and (4) certain demographic assumptions were revised (retirement rates, termination rates, etc.).

**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.



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

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



Phone: (850) 412-2722  
Fax: (850) 488-6975

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida Polytechnic University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 13, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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

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

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free 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 University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 13, 2018