

3-2017

# Annual financial report for the fiscal year 2015-2016

Florida International University

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Report No. 2017-181  
March 2017

**STATE OF FLORIDA AUDITOR GENERAL**

Financial Audit

**FLORIDA INTERNATIONAL UNIVERSITY**

For the Fiscal Year Ended  
June 30, 2016



Sherrill F. Norman, CPA  
Auditor General

## Board of Trustees and President

During the 2015-16 fiscal year, Dr. Mark B. Rosenberg served as President of Florida International University and the following individuals served as Members of the Board of Trustees:

Claudia Puig, Chair from 12-10-15, Vice Chair <sup>a</sup> to 12-9-15	Marcelo Claire to 8-25-15 Alian Collazo <sup>b</sup> from 5-16-16
Jorge L. Arrizurieta, Vice Chair from 3-11-16	Mayi de la Vega to 3-23-16
Albert Maury, Chair to 12-9-15	Gerald C. Grant, Jr.
Sukrit Agrawal to 8-25-15	Michael G. Joseph from 8-26-15
Cesar L. Alvarez, J.D.	Natasha Lowell
Dr. Jose J. Armas, M.D.	Justo L. Pozo
Leonard Boord from 8-26-15	Marc D. Sarnoff from 3-24-16
Alexis Calatayud <sup>b</sup> to 5-15-16	Dr. Kathleen L. Wilson <sup>c</sup>

<sup>a</sup> Vice Chair position vacant from 12-10-15, through 3-10-16.

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

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

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 Michael J. Salerno, CPA, and the supervisor was Hector J. Quevedo, CPA.

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

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**State of Florida Auditor General**

**Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722**

**FLORIDA INTERNATIONAL UNIVERSITY**  
**TABLE OF CONTENTS**

	Page No.
SUMMARY .....	i
INDEPENDENT AUDITOR'S REPORT .....	1
Report on the Financial Statements .....	1
Other Reporting Required by <i>Government Auditing Standards</i> .....	2
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	4
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Position .....	16
Statement of Revenues, Expenses, and Changes in Net Position .....	18
Statement of Cash Flows .....	20
Notes to Financial Statements .....	22
<b>OTHER REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Funding Progress – Other Postemployment Benefits Plan .....	62
Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan .....	62
Schedule of University Contributions – Florida Retirement System Pension Plan.....	62
Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan.....	63
Schedule of University Contributions – Health Insurance Subsidy Pension Plan .....	63
Notes to Required Supplementary Information.....	63
<b>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 .....</b>	
Internal Control Over Financial Reporting .....	64
Compliance and Other Matters .....	65
Purpose of this Report .....	65

# SUMMARY

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## SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Florida International 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 International 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, 2016. 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

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Tallahassee, Florida 32399-1450



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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Florida International University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2016, 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 aggregate discretely presented component units, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida International University and of its aggregate discretely presented component units as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the 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 22, 2017, on our consideration of the Florida International 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 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 International University's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 22, 2017



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

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Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2016, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2016, and June 30, 2015.

### FINANCIAL HIGHLIGHTS

The University's assets totaled \$1.4 billion at June 30, 2016. This balance reflects a \$22.3 million, or 1.6 percent, increase as compared to the 2014-15 fiscal year, resulting from an increase in cash and cash equivalents and investments of \$22.9 million as well as an increase in capital assets of \$15 million, net of depreciation. These increases were partially offset by a \$17 million decrease in receivables due from the State for capital projects. Deferred outflows of resources increased \$13.2 million due to pension-related activity as required to be reported under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Liabilities increased by \$49.6 million, or 11.3 percent, totaling \$487.4 million at June 30, 2016, as compared to \$437.8 million at June 30, 2015. These increases were offset by a \$36.3 million decrease in deferred inflows of resources from pension-related activity. As a result, the University's net position increased by \$22.2 million, resulting in a year-end balance of \$934 million.

The University's operating revenues totaled \$510.1 million for the 2015-16 fiscal year, representing an \$11.4 million, or 2.3 percent, increase compared to the 2014-15 fiscal year. Major components of operating revenues are student tuition and fees, auxiliary enterprise revenues, and grants and contracts. The overall increase in operating revenue is mainly due to increases in net tuition and fees revenue of \$10 million and auxiliary enterprise revenue of \$2.5 million. Operating expenses totaled \$909.6 million for the 2015-16 fiscal year, representing an increase of \$36 million, or 4.1 percent, as compared to the 2014-15 fiscal year due mainly to an increase in compensation and employee benefits of \$34.1 million.

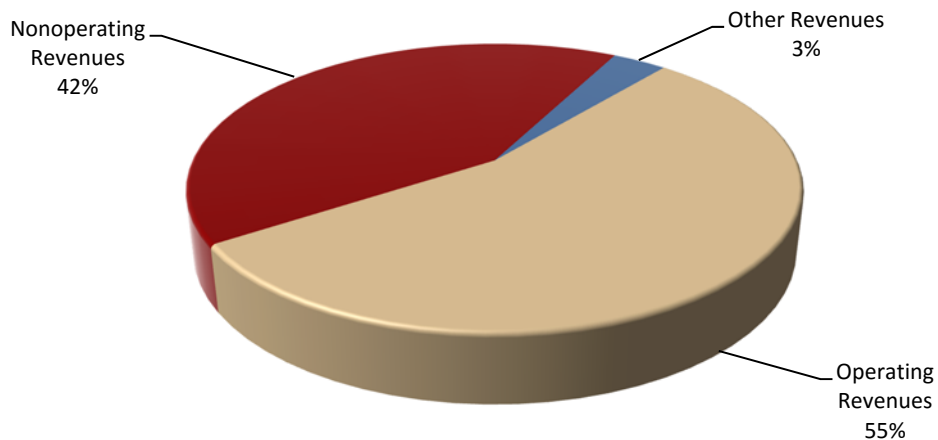
Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University's comparative total net position by category for the fiscal years ended June 30, 2016, and June 30, 2015, is shown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

**Net Position  
(In Millions)**



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

**Total Revenues**



**OVERVIEW OF FINANCIAL STATEMENTS**

Pursuant to GASB Statement No. 35, the University’s financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its discretely presented component units. These component units include:

- Florida International University Foundation, Inc. (Foundation)
- FIU Athletics Finance Corporation (Finance Corporation)

- Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. (Health Care Network)

Based on the application of the criteria for determining component units, the Foundation, Finance Corporation, and Health Care Network are included within the University reporting entity as discretely presented component units. Information regarding these discretely presented component units, including summaries of their separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the discretely presented component units. For those discretely presented component units reporting under GASB standards, MD&A information is included in their separately issued audit reports.

### **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 table 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 Millions)

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current Assets	\$ 388.0	\$ 371.3
Capital Assets, Net	976.7	961.7
Other Noncurrent Assets	<u>16.6</u>	<u>26.0</u>
<b>Total Assets</b>	<u>1,381.3</u>	<u>1,359.0</u>
<b>Deferred Outflows of Resources</b>	<u>59.3</u>	<u>46.1</u>
<b>Liabilities</b>		
Current Liabilities	65.1	75.8
Noncurrent Liabilities	<u>422.3</u>	<u>362.0</u>
<b>Total Liabilities</b>	<u>487.4</u>	<u>437.8</u>
<b>Deferred Inflows of Resources</b>	<u>19.2</u>	<u>55.5</u>
<b>Net Position</b>		
Net Investment in Capital Assets	811.3	787.4
Restricted	14.2	42.2
Unrestricted	<u>108.5</u>	<u>82.2</u>
<b>Total Net Position</b>	<u>\$ 934.0</u>	<u>\$ 911.8</u>

Total assets as of June 30, 2016, increased by \$22.3 million, or 1.6 percent. This increase is due to an increase in cash and cash equivalents and investments of \$22.9 million primarily driven by collection of receivables due from the State for capital projects and reduced expenses for new projects along with an increase in capital assets of \$15 million, net of depreciation. The increases were partially offset by a \$17 million decrease in receivables due from the State for capital construction projects for cash received during the 2015-16 fiscal year. Deferred outflows of resources increased \$13.2 million due to the annual recognition of the University's proportionate share of the actuarially determined amounts related to the Florida Retirement System (FRS) pension plans. Total liabilities as of June 30, 2016, increased by \$49.6 million, or 11.3 percent. The increase was primarily due to an increase in other postemployment benefit (OPEB) of \$20.4 million and an increase of \$47.4 million for the University's proportionate share of the FRS net pension liabilities. These increases were offset by a reduction of \$12.5 million in unearned revenue from construction projects that was earned during the 2015-16 fiscal year and an \$8.4 million reduction in principal payments for capital improvement debt payable. Deferred inflows of resources decreased by \$36.3 million due to the annual recognition of the University's proportionate share of the actuarially determined amounts related to the FRS pension plans.

### **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 table summarizes the University's activity for the 2015-16 and 2014-15 fiscal years:

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

(In Millions)

	<u>2015-16</u>	<u>2014-15</u>
Operating Revenues	\$ 510.1	\$ 498.7
Less, Operating Expenses	<u>909.6</u>	<u>873.6</u>
<b>Operating Loss</b>	(399.5)	(374.9)
Net Nonoperating Revenues	<u>390.1</u>	<u>368.7</u>
<b>Loss Before Other Revenues</b>	(9.4)	(6.2)
Other Revenues	<u>31.6</u>	<u>12.2</u>
<b>Net Increase In Net Position</b>	<u>22.2</u>	<u>6.0</u>
Net Position, Beginning of Year	911.8	994.6
Adjustment to Beginning Net Position (1)	<u>-</u>	<u>(88.8)</u>
<b>Net Position, Beginning of Year, as Restated</b>	<u>911.8</u>	<u>905.8</u>
<b>Net Position, End of Year</b>	<u>\$ 934.0</u>	<u>\$ 911.8</u>

Note: (1) For the 2014-15 fiscal year, the University's beginning net position was decreased in conjunction with the implementation of GASB Statement No. 68.

**Operating Revenues**

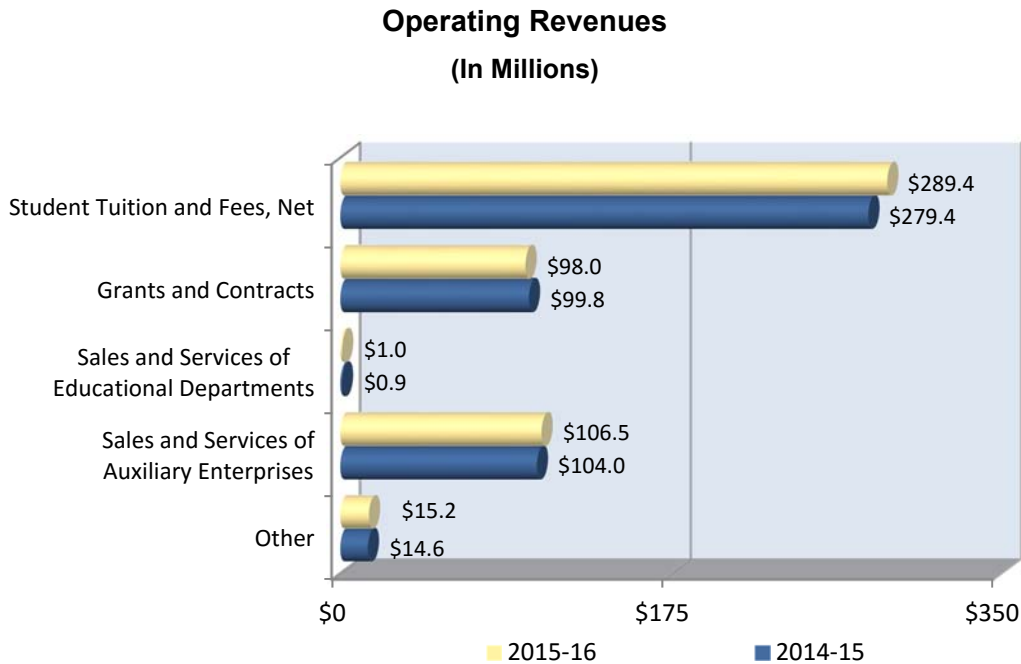
GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

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

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

	<u>2015-16</u>	<u>2014-15</u>
Student Tuition and Fees, Net	\$ 289.4	\$ 279.4
Grants and Contracts	98.0	99.8
Sales and Services of Educational Departments	1.0	0.9
Sales and Services of Auxiliary Enterprises	106.5	104.0
Other	15.2	14.6
<b>Total Operating Revenues</b>	<b>\$ 510.1</b>	<b>\$ 498.7</b>

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



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

- Net student tuition and fees revenue increased \$10 million or 3.6 percent. This increase was primarily driven by an increase of 11.1 percent in out-of-State undergraduate student enrollment, which generated incremental revenue from non-resident tuition. Additionally, tuition from market rate graduate programs increased due to the following new programs introduced during the

2015-16 fiscal year: Professional Science Master in Environmental Policy and Management, Master of Science in Curriculum and Instruction, and Master of Science in Special Education. Also contributing to the increase, was an increase in the Activity and Service fee from \$12.87 to \$14.85 per credit hour.

- Sales and Services of Auxiliary Enterprises revenue increased \$2.5 million, or 2.4 percent. The increase was mainly due to an increase of \$1.4 million in game guarantee revenue earned from additional non-conference football games played on the road during fiscal year 2015-16 than during fiscal year 2014-15. Also contributing to the increase was \$1 million of incremental revenue from excess conference revenue returned to the University after meeting bond payment obligations for the football stadium along with higher parking citations issued resulting from the addition of two license plate recognition vehicles and the implementation of a new electronic ticketing system.

### **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.

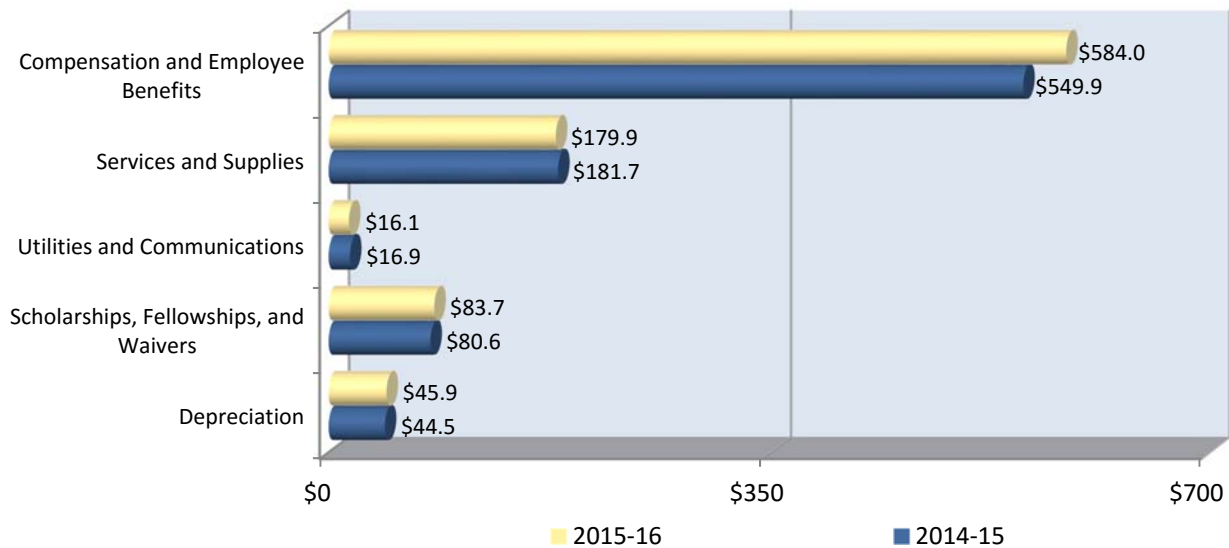
The following table summarizes operating expenses by natural classification for the 2015-16 and 2014-15 fiscal years:

<b>Operating Expenses For the Fiscal Years</b>		
(In Millions)		
	<b>2015-16</b>	<b>2014-15</b>
Compensation and Employee Benefits	\$ 584.0	\$ 549.9
Services and Supplies	179.9	181.7
Utilities and Communications	16.1	16.9
Scholarships, Fellowships, and Waivers	83.7	80.6
Depreciation	45.9	44.5
<b>Total Operating Expenses</b>	<b>\$ 909.6</b>	<b>\$ 873.6</b>

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

## Operating Expenses

(In Millions)



Changes in operating expenses were the result of the following factors:

- Compensation and employee benefits increased \$34.1 million, or 6.2 percent. This increase was primarily due to an increase in the number of employees combined with a 1 percent across the board salary increase and a 1 percent merit increase for eligible employees. Additionally, there were increases in other postemployment benefits expense as well as a pension expense adjustment.
- Services and supplies expenses decreased \$1.8 million, or 1 percent. This decrease was mainly related to the reduction in construction contract expenses of \$2.5 million resulting from fewer minor renovation and repair projects during the 2015-16 fiscal year compared to the 2014-15 fiscal year.
- Scholarships, fellowships, and waivers expenses increased by \$3.1 million, or 3.8 percent. The increase was primarily driven by the Pell grant program as well as waivers under State of Florida regulations.

### **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 table summarizes the University's nonoperating revenues and expenses for the 2015-16 and 2014-15 fiscal years:

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

	<b>2015-16</b>	<b>2014-15</b>
State Noncapital Appropriations	\$ 261.6	\$ 247.8
Federal and State Student Financial Aid	112.1	110.8
Investment Income (Loss)	3.2	(4.2)
Other Nonoperating Revenues	21.4	22.5
Loss on Disposal of Capital Assets	(0.1)	(0.1)
Interest on Capital Asset-Related Debt	(7.5)	(7.9)
Other Nonoperating Expenses	(0.6)	(0.2)
<b>Net Nonoperating Revenues</b>	<b>\$ 390.1</b>	<b>\$ 368.7</b>

Net nonoperating revenues increased by \$21.4 million, due mainly to the following:

- State noncapital appropriations increased \$13.8 million, or 5.6 percent, due to an increase of \$9.3 million in incremental funding under the Florida Board of Governors' performance model, \$3.3 million of additional special appropriations, incremental appropriations for plant operations and maintenance of \$0.4 million, risk management insurance of \$0.4 million, and retirement benefit adjustments of \$0.3 million.
- Investment income increased by \$7.4 million, or 176.2 percent, primarily due to higher investment returns during the 2015-16 fiscal year.

**Other Revenues**

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following table summarizes the University's other revenues for the 2015-16 and 2014-15 fiscal years:

<b>Other Revenues For the Fiscal Years (In Millions)</b>		
	<b>2015-16</b>	<b>2014-15</b>
State Capital Appropriations	\$ 26.2	\$ 3.3
Capital Grants, Contracts, Donations, and Fees	5.4	8.9
<b>Total</b>	<b>\$ 31.6</b>	<b>\$ 12.2</b>

Total other revenues increased by \$19.4 million, or 159 percent, due to a \$22.9 million increase in State capital appropriation revenue earned for capital projects. This increase was offset by a \$3.5 million decrease in capital grants and donations.

**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 table summarizes cash flows for the 2015-16 and 2014-15 fiscal years:

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

	<b>2015-16</b>	<b>2014-15</b>
Cash Provided (Used) by:		
Operating Activities	\$ (324.5)	\$ (319.1)
Noncapital Financing Activities	392.5	375.2
Capital and Related Financing Activities	(48.1)	(80.9)
Investing Activities	(21.4)	14.7
<b>Net Decrease in Cash and Cash Equivalents</b>	(1.5)	(10.1)
Cash and Cash Equivalents, Beginning of Year	5.6	15.7
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 4.1</b>	<b>\$ 5.6</b>

Major sources of funds came from State noncapital appropriations (\$261.6 million), Federal Direct Student Loan receipts (\$281.1 million), net student tuition and fees (\$286.9 million), grants and contracts (\$99.1 million), sales and services of auxiliary enterprises (\$106.5 million), proceeds from sales and maturities of investments (\$737.7 million), State capital appropriations (\$25.9 million), and Federal and State student financial aid (\$111.1 million). Major uses of funds were for payments made to and on behalf of employees (\$561.3 million), payments to suppliers (\$191.5 million), disbursements to students for Federal Direct Student Loans (\$281.3 million), purchases of capital assets (\$62.8 million), purchases of investments (\$767.3 million), and payments to and on behalf of students for scholarships and fellowships (\$83.7 million).

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

**Capital Assets**

At June 30, 2016, the University had \$1.5 billion in capital assets, less accumulated depreciation of \$522.1 million, for net capital assets of \$976.7 million. Depreciation charges for the current fiscal year totaled \$45.9 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

## Capital Assets, Net at June 30

(In Millions)

	<u>2016</u>	<u>2015</u>
Land	\$ 30.4	\$ 28.7
Works of Art and Historical Treasures	4.6	4.3
Construction in Progress	61.8	125.3
Buildings	787.8	723.2
Infrastructure and Other Improvements	19.3	4.4
Furniture and Equipment	39.0	38.5
Library Resources	31.1	34.6
Property Under Capital Leases and Leasehold Improvements	1.4	1.5
Computer Software	1.3	1.2
<b>Capital Assets, Net</b>	<b><u>\$ 976.7</u></b>	<b><u>\$ 961.7</u></b>

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

### **Capital Expenses and Commitments**

Major capital expenses through June 30, 2016, were incurred on the following project: \$20.4 million for the Student Academic Support Center. The University's construction commitments at June 30, 2016, are as follows:

	<b><u>Amount</u></b> <b><u>(In Millions)</u></b>
Total Committed	\$ 130.7
Completed to Date	<u>(61.8)</u>
Balance Committed	<b><u>\$ 68.9</u></b>

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

### **Debt Administration**

As of June 30, 2016, the University had \$165.5 million in outstanding capital improvement debt payable and capital lease payable, representing a decrease of \$8.8 million, or 5.1 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

## Long-Term Debt, at June 30

(In Millions)

	<u>2016</u>	<u>2015</u>
Capital Improvement Debt	\$ 165.3	\$ 173.7
Capital Lease	0.2	0.6
<b>Total</b>	<b><u>\$ 165.5</u></b>	<b><u>\$ 174.3</u></b>

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

## ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Regaining and sustaining economic progress has been the key to Florida's ability to grow and increase funding to important governmental agencies and branches. Balancing the inflows and outflows of various sources is an inherently complex process; nonetheless, the fiscal year 2015-16 general revenue collections modestly exceeded projections and grew by 2.4 percent compared to fiscal year 2014-15. As Florida's population continues to grow, public officials and lawmakers have invested the majority of resources in social programs as well as educational institutions statewide. The 2016-17 budget includes \$500 million in performance funds for the State University System (SUS), a \$100 million increase from fiscal year 2015-16, and represents a State investment of \$225 million and SUS investment from base funds of \$275 million. During the year, the Florida Board of Governors (BOG) modified definitions and benchmarks for some of the performance metrics and converted the points scale used to rank SUS institutions from 50 to 100 points. Under the updated model, Florida International University (FIU) ranked fourth with 76 points and received a total of \$56.1 million, of which \$9 million was incremental to the prior year's budget. In addition to performance funding, FIU received Legislative Budget Requests (LBRs) for specific projects and programs in the amount of \$4.7 million (net \$3 million after \$1.7 million reduction for prior year non-recurring allocations) and \$1.1 million for retirement contributions and risk management insurance pass-throughs. The FIU Herbert Wertheim College of Medicine (HWCOC) is presently at maximum capacity of 480 medical students and is in the process of implementing the HWCOC 2015-2020 strategic plan which is focused on integrating education, research, and clinical care while changing the community's health.

Last year, the Legislature addressed college affordability by implementing a sales tax exemption on textbooks for fiscal year 2015-16. During the 2016 legislative session, lawmakers expanded and added reporting requirements to the Education Access and Affordability bill. Specifically, the bill mandates all required and recommended textbooks and materials be posted at least 45 days prior to the commencement of the semester for at least 95 percent of courses in the upcoming term. SUS institutions are also required to review and report on cost variances in textbooks and instructional materials among different sections of the same course. Consistent with the theme of college affordability, the Legislature instituted a \$30 per credit hour cap for the average distance learning fee and changed the delegation authority over tuition increases for graduate and professional programs from the institution's Board of Trustees to the BOG. Consequently, tuition rates at all levels remain unchanged for the 2016-17 fiscal year.

The BOG continues to hold institutions to the 10 performance metrics included in the Performance Based Funding Model and is continually fine-tuning parameters to provide clarity and boost positive performance results. These measures offer guidance and establish targets for strategic progress while ensuring alignment with the State's focus on generating a positive return on investment through student success. The FIU Beyond Possible 2020 strategic plan is perfectly aligned with the BOG's performance metrics, and also seeks to increase community ties. FIU is cognizant of the challenges in achieving these goals, our faculty and staff are focused on the outcomes, and we have purposefully allocated resources in areas

that positively impact performance metric results. FIU is an anchor institution in the community and is committed to providing our students with a rigorous and relevant education which will enable our graduates to make valuable contributions to the advancement of our community in South Florida and the State of Florida.

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 the Chief Financial Officer and Senior Vice President for Finance and Administration, Dr. Kenneth Jessell, at Florida International University, 11200 Southwest 8<sup>th</sup> Street, Miami, Florida 33199.

# BASIC FINANCIAL STATEMENTS

## Florida International University A Component Unit of the State of Florida Statement of Net Position

June 30, 2016

	University	Component Units
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 4,109,516	\$ 11,670,182
Investments	308,223,319	230,711,208
Accounts Receivable, Net	27,011,414	80,151,153
Loans and Notes Receivable, Net	589,509	-
Due from State	44,271,289	-
Due from Component Units/University	3,311,772	89,659
Inventories	418,036	-
Other Current Assets	39,721	2,609,469
<b>Total Current Assets</b>	<b>387,974,576</b>	<b>325,231,671</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	31,526	1,018,792
Restricted Investments	5,723,064	2,690,039
Loans and Notes Receivable, Net	1,878,901	-
Depreciable Capital Assets, Net	879,930,418	17,919,836
Nondepreciable Capital Assets	96,798,944	-
Due from Component Units/University	9,032,492	-
Other Noncurrent Assets	-	20,829,368
<b>Total Noncurrent Assets</b>	<b>993,395,345</b>	<b>42,458,035</b>
<b>Total Assets</b>	<b>1,381,369,921</b>	<b>367,689,706</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Amounts Related to Pensions	59,309,116	-
Accumulated Decrease in Fair Value of Hedging		
Derivatives	-	3,729,734
Deferred Amount on Debt Refundings	-	259,940
<b>Total Deferred Outflows of Resources</b>	<b>59,309,116</b>	<b>3,989,674</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	25,160,384	1,123,799
Construction Contracts Payable	6,585,103	-
Salary and Wages Payable	10,655,776	-
Deposits Payable	1,950,620	-
Due to State	202,386	-
Due to Component Units/University	184,747	2,851,172
Unearned Revenue	7,495,987	865,133
Other Current Liabilities	232,597	202,068
Long-Term Liabilities - Current Portion:		
Bonds Payable	-	1,090,035
Capital Improvement Debt Payable	7,184,422	-
Notes Payable	-	785,000
Capital Lease Payable	192,311	-
Compensated Absences Payable	3,349,280	-
Liability for Self-Insured Claims	153,608	-
Net Pension Liability	1,768,753	-
<b>Total Current Liabilities</b>	<b>65,115,974</b>	<b>6,917,207</b>

**Florida International University**  
**A Component Unit of the State of Florida**  
**Statement of Net Position (Continued)**

**June 30, 2016**

	<b>University</b>	<b>Component Units</b>
<b>LIABILITIES (Continued)</b>		
Noncurrent Liabilities:		
Bonds Payable	-	29,628,572
Capital Improvement Debt Payable	158,075,900	-
Notes Payable	-	4,635,000
Compensated Absences Payable	38,412,281	-
Due to Component Units/University	-	9,032,492
Other Postemployment Benefits Payable	68,116,000	-
Unearned Revenues	35,566,894	255,000
Liability for Self-Insured Claims	53,552	-
Net Pension Liability	119,726,282	-
Other Long-Term Liabilities	2,341,166	8,112,141
<b>Total Noncurrent Liabilities</b>	<b>422,292,075</b>	<b>51,663,205</b>
<b>Total Liabilities</b>	<b>487,408,049</b>	<b>58,580,412</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Amounts Related to Pensions	19,242,297	-
<b>NET POSITION</b>		
Net Investment in Capital Assets	811,276,729	11,802,097
Restricted for Nonexpendable:		
Endowment	-	209,664,592
Restricted for Expendable:		
Debt Service	2,869,407	-
Loans	870,753	-
Capital Projects	5,715,243	-
Other	4,764,175	87,854,851
Unrestricted	108,532,384	3,777,428
<b>TOTAL NET POSITION</b>	<b>\$ 934,028,691</b>	<b>\$ 313,098,968</b>

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

**Florida International 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, 2016**

	<b>University</b>	<b>Component Units</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$129,398,883 (\$10,434,966 Pledged for Parking Facility Capital Improvement Debt)	\$ 289,385,217	\$ -
Federal Grants and Contracts	76,453,986	-
State and Local Grants and Contracts	8,351,776	-
Nongovernmental Grants and Contracts	13,244,306	-
Sales and Services of Educational Departments	972,214	-
Sales and Services of Auxiliary Enterprises (\$30,567,829 Pledged for Housing Facility Capital Improvement Debt and \$5,155,866 Pledged for Parking Facility Capital Improvement Debt)	106,483,079	-
Sales and Services of Component Units	-	6,318,783
Gifts and Donations	-	21,812,230
Interest on Loans and Notes Receivable	62,760	-
Other Operating Revenues	15,149,048	10,642,559
<b>Total Operating Revenues</b>	<b>510,102,386</b>	<b>38,773,572</b>
<b>EXPENSES</b>		
Operating Expenses:		
Compensation and Employee Benefits	583,993,133	-
Services and Supplies	179,932,133	23,888,219
Utilities and Communications	16,063,722	126,667
Scholarships, Fellowships, and Waivers	83,660,060	-
Depreciation	45,921,855	820,265
Other Operating Expenses	-	14,278,104
<b>Total Operating Expenses</b>	<b>909,570,903</b>	<b>39,113,255</b>
<b>Operating Loss</b>	<b>(399,468,517)</b>	<b>(339,683)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Noncapital Appropriations	261,567,034	-
Federal and State Student Financial Aid	112,126,868	-
Investment Income (Loss)	3,165,478	(5,621,405)
Other Nonoperating Revenues	21,369,540	-
Loss on Disposal of Capital Assets	(124,413)	(34,104)
Interest on Capital Asset-Related Debt	(7,500,942)	(1,512,871)
Other Nonoperating Expenses	(547,450)	-
<b>Net Nonoperating Revenues (Expenses)</b>	<b>390,056,115</b>	<b>(7,168,380)</b>
<b>Loss Before Other Revenues, Expenses, Gains, or Losses</b>	<b>(9,412,402)</b>	<b>(7,508,063)</b>
State Capital Appropriations	26,254,076	-
Capital Grants, Contracts, Donations, and Fees	5,434,561	-
Other Expenses	-	(750,000)
<b>Increase (Decrease) in Net Position</b>	<b>22,276,235</b>	<b>(8,258,063)</b>
Net Position, Beginning of Year	911,752,456	321,357,031
<b>Net Position, End of Year</b>	<b>\$ 934,028,691</b>	<b>\$ 313,098,968</b>

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

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**Florida International University**  
**A Component Unit of the State of Florida**  
**Statement of Cash Flows**

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

	<b>University</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student Tuition and Fees, Net	\$ 286,928,591
Grants and Contracts	99,088,274
Sales and Services of Educational Departments	972,214
Sales and Services of Auxiliary Enterprises	106,464,512
Interest on Loans and Notes Receivable	59,848
Payments to Employees	(561,316,120)
Payments to Suppliers for Goods and Services	(191,527,398)
Payments to Students for Scholarships and Fellowships	(83,660,060)
Loans Issued to Students	(4,446,920)
Collection on Loans to Students	4,501,869
Other Operating Receipts	18,386,666
	<b>(324,548,524)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Noncapital Appropriations	261,567,034
Federal and State Student Financial Aid	111,083,162
Federal Direct Loan Program Receipts	281,101,567
Federal Direct Loan Program Disbursements	(281,292,814)
Operating Subsidies and Transfers	133,351
Net Change in Funds Held for Others	10,125
Other Nonoperating Receipts	19,972,470
Other Nonoperating Disbursements	(32,795)
	<b>392,542,100</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
State Capital Appropriations	25,896,036
Capital Grants, Contracts, Donations, and Fees	3,527,453
Other Receipts for Capital Projects	1,412,072
Capital Subsidies and Transfers	548,469
Purchase or Construction of Capital Assets	(62,761,564)
Principal Paid on Capital Debt and Leases	(8,893,199)
Interest Paid on Capital Debt and Leases	(7,800,363)
	<b>(48,071,096)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	737,721,138
Purchase of Investments	(767,261,509)
Investment Income	8,131,793
	<b>(21,408,578)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(1,486,098)</b>
Cash and Cash Equivalents, Beginning of Year	5,627,140
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 4,141,042</b>

**Florida International University  
A Component Unit of the State of Florida  
Statement of Cash Flows (Continued)**

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

	<u>University</u>
<b>RECONCILIATION OF OPERATING LOSS</b>	
<b>TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (399,468,517)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	45,921,855
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	(581,403)
Inventories	(34,103)
Other Assets	3,422
Accounts Payable	3,961,323
Salaries and Wages Payable	2,577,921
Deposits Payable	(14,831)
Compensated Absences Payable	1,720,819
Unearned Revenue	2,870,087
Liability for Self-Insured Claims	116,630
Other Postemployment Benefits Payable	20,432,000
Net Pension Liability	47,407,633
Deferred Outflows of Resources Related to Pensions	(13,203,240)
Deferred Inflows of Resources Related to Pensions	(36,258,120)
	<u>\$ (324,548,524)</u>

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

Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 560,721
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.	\$ (124,413)
Donations of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 1,957,357
The Division of Bond Finance issued \$29,105,000 of Capital Improvement Housing Revenue Refunding Bonds, Series 2015A, to refund \$30,055,000 of outstanding Capital Improvement Revenue and Refunding Bonds, Series 2004A. The new debt and defeasance of the old debt were recorded as an increase and a decrease, respectively, to capital improvement debt payable on the statement of net position; however, because the proceeds of the new debt were immediately placed into an irrevocable trust for the defeasance of the Series 2004A debt, the transaction did not affect cash and cash equivalents.	\$ 950,000

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 Units.** Based on the application of the criteria for determining component units, the following direct-support organizations (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011) are included within the University reporting entity as discretely presented component units. These legally separate, not-for-profit, corporations are organized and operated to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services and are governed by separate boards. The statutes authorize these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- Florida International University Foundation, Inc. (Foundation) – The purpose of the Foundation is to encourage, solicit, receive, and administer gifts and bequests of property and funds for the advancement of the University and its objectives.
- FIU Athletics Finance Corporation (Finance Corporation) – The purpose of the Finance Corporation includes the support to the University in matters pertaining to the financing of the University's football stadium and, subsequently, the management and operation of the facility.
- The Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. (Health Care Network) – The purpose of the Health Care Network is to improve and support health education at the University.

The financial activities of the Florida International University Research Foundation, Inc. (Research Foundation) are not included in the University's financial statements. The purpose of the Research Foundation includes the promotion and encouragement of, and assistance to, the research and training activities of faculty, staff, and students of the University. It receives income from contracts, grants, and other sources, including, but not limited to, income derived from or related to the development and commercialization of University work products. The total assets and operating revenues related to the Research Foundation are \$344,311 and \$0, respectively. The amounts represent less than 1 percent of the total aggregate component units' assets and operating revenues.

An annual audit of each organization's financial statements is conducted by independent certified public accountants. The annual report is submitted to the Auditor General and the University Board of Trustees. Additional information on the University's component units, including copies of audit reports, is available by contacting the University Controller's Office. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

**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 units use the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follow GASB standards of accounting and financial reporting except for the Foundation, which 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, investment income (net of unrealized gains or losses on investments), and revenue for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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

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

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

**Cash and Cash Equivalents**. Cash and cash equivalents consist of cash on hand 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. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

### **Concentration of Credit Risk – Component Units**

Financial instruments that potentially subject the Foundation to concentration of credit risk consist principally of cash and cash equivalents in banks, investments, and promises to give.

Financial instruments that potentially subject the Finance Corporation to concentration of credit risk consist principally of cash in banks and investments.

In addition to insurance provided by the Federal Depository Insurance Corporation (FDIC), the Foundation, the Finance Corporation, and the Health Care Network deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Chapter 280, Florida Statutes, Florida Security for Public Deposits Act, all Florida qualified public depositories are to deposit with the State Treasury or another banking institution, eligible collateral. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. Accordingly, all amounts reported as deposits, with the exception noted above, are insured or collateralized with securities held by the entity or its agent in the entity's name.

**Capital Assets.** University capital assets consist of land, works of art and historical treasures, construction in progress, buildings, infrastructure and other improvements, furniture and equipment, library resources, property under capital leases and leasehold improvements, and computer software. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$250 for library resources, \$5,000 for tangible personal property, and \$50,000 for new buildings, leasehold improvements, and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 20 to 50 years
- Infrastructure and Other Improvements – 15 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Property Under Capital Leases – 5 years
- Leasehold Improvements – Various based on lease terms
- Computer Software – 5 years

Depreciable assets of the Foundation are stated at cost and are net of accumulated depreciation of \$5,713,549. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years.

Depreciable assets of the Health Care Network are stated at cost and are net of accumulated depreciation of \$198,268. Depreciation is provided using the straight-line method over the estimated useful lives from 5 to 15 years for the assets.

**Noncurrent Liabilities.** Noncurrent liabilities include capital improvement debt payable, compensated absences payable, other postemployment benefits payable, unearned revenue, liability for self-insured claims, net pension liability, and other long-term liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized premium and deferred losses on refunding. The University amortizes debt premiums over the life of the debt using the straight-line

method. Deferred losses on refunding are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method.

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

## **2. Reporting Changes**

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

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

## **3. 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.

All of the University's recurring fair value measurements as of June 30, 2016, are valued using quoted market prices (Level 1 inputs), with the exception of corporate equities, fixed income and bonds, and

commodities which are valued using a matrix pricing model (Level 2 inputs), investments with the State Treasury which are valued based on the University's share of the pool and other investments (Level 3 inputs), and limited partnerships and private equities which are valued based on net asset value (NAV). The University's investment in money market funds are reported at amortized cost of \$70,733,999 according to GASB Statement No. 72.

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

	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level</b>				
External Investment Pool:				
State Treasury Special Purpose Investment Account	\$ 18,297,320	\$ -	\$ -	\$ 18,297,320
SBA Debt Service Accounts	2,852,132	2,852,132	-	-
Mutual Funds:				
Equities	65,330,197	-	65,330,197	-
Fixed Income and Bond Mutual Funds	103,368,831	32,674,974	70,693,857	-
Commodities	11,729,702	-	11,729,702	-
Other Investments	1,900,000	-	-	1,900,000
<b>Total investments by fair value level</b>	<b>\$203,478,182</b>	<b>\$ 35,527,106</b>	<b>\$ 147,753,756</b>	<b>\$ 20,197,320</b>
<b>Investments measured at the net asset value (NAV)</b>				
Mutual Funds:				
Limited Partnerships	25,818,640			
Equities	13,915,562			
<b>Total investments measured at NAV</b>	<b>39,734,202</b>			
<b>Total investments measured at fair value</b>	<b>\$243,212,384</b>			

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table:

Investments measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Mutual Funds:				
Limited Partnerships	\$ 25,818,640	\$ -	Quarterly/Annually	90 Days
Equities	13,915,562	9,415,625	Illiquid	N/A
<b>Total investments measured at the NAV</b>	<b>\$ 39,734,202</b>			

*Limited Partnerships:* This category includes investments in a fund that invests in a portfolio of limited partnerships. The managers pursue multiple strategies to diversify risk and reduce volatility. The fair values of the investments have been determined by using the NAV per share of the investments. Redemption requests are received quarterly and require a 90 day written notice. Proceeds of the redemption, up to 90 percent, are available 27 calendar days after the redemption. The remaining 10 percent of the funds, in a complete liquidation, are available the first week April, after the redemption.

*Equities:* This category includes investments in 2 private equity funds. Each fund invests in equity securities and debt of private companies or conduct buyouts of public companies that result in a delisting



of public equity. The nature of the investment in this category prohibits redemptions through the duration of the partnerships, which range between 10 to 15 years. Distributions are received through the liquidation of underlying assets of the funds.

### **External Investment Pools**

The University reported investments at fair value totaling \$18,297,320 at June 30, 2016, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. 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 2.61 years and fair value factor of 1.0143 at June 30, 2016. 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.

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

The University reported investments totaling \$2,852,132 at June 30, 2016, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. The University's investments consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value. The University relies on policies developed by the SBA for managing interest rate risk and credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

### **Fixed Income and Bond Mutual Funds**

The University invested in various mutual funds in accordance with the University's investment policy. The following risks apply to the University's fixed income and bond mutual fund investments:

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Pursuant to Section 218.415(6), Florida Statutes, the University's investments in securities must provide sufficient liquidity to pay obligations as they come due. The future maturities of the securities held in the fixed income and bond mutual funds at June 30, 2016, are as follows:

## University Debt Investment Maturities

Investment Type	Fair Market Value	Investment Maturities (In Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Fixed Income Mutual Fund	\$ 44,201,778	\$ 2,868,695	\$ 15,497,143	\$ 17,282,895	\$ 8,553,045
TIPS Index Fund	26,492,079	61,080	8,723,128	11,978,776	5,729,095
High Yield Bond Mutual Fund	19,327,361	2,027,099	7,596,269	8,653,977	1,050,016
Credit Fixed Income	13,347,613	3,605,866	3,462,309	2,001,920	4,277,518
<b>Total</b>	<b>\$ 103,368,831</b>	<b>\$ 8,562,740</b>	<b>\$ 35,278,849</b>	<b>\$ 39,917,568</b>	<b>\$ 19,609,674</b>

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2016, the securities held in the fixed income and bond mutual funds had credit quality ratings by a nationally-recognized rating agency (i.e., Standard & Poor's or Moody's), as follows:

### University Debt Investment Credit Quality Ratings

Investment Type	Fair Value	AAA / Aaa	AA / Aa	A	BBB / Baa to Not Rated
Fixed Income Mutual Fund	\$ 44,201,778	\$ 26,432,663	\$ 1,547,062	\$ 5,436,819	\$ 10,785,234
TIPS Index Fund	26,492,079	26,492,079	-	-	-
High Yield Bond Mutual Fund	19,327,361	96,300	-	73,078	19,157,983
Credit Fixed income	13,347,613	2,572,967	1,444,229	5,292,400	4,038,017
<b>Total</b>	<b>\$ 103,368,831</b>	<b>\$ 55,594,009</b>	<b>\$ 2,991,291</b>	<b>\$ 10,802,297</b>	<b>\$ 33,981,234</b>

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's investment policy addresses the issue of concentration of credit risk by establishing the following restrictions:

- Maximum position in an individual security (excluding government securities) must not exceed 5 percent of the account market value.
- Maximum position in any one issuer (excluding government securities) must not exceed 5 percent of the account market value.

### **Discretely Presented Component Unit Investments**

The Foundation's investments at June 30, 2016, are reported at fair value as follows:

	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level</b>				
Domestic Equities	\$ 1,644,640	\$ 1,644,640	\$ -	\$ -
Global Equities	17,871,517	17,871,517	-	-
Fixed Income	26,462,041	26,462,041	-	-
Real Assets	8,980,422	8,980,422	-	-
<b>Total investments by fair value level</b>	<b>\$ 54,958,620</b>	<b>\$ 54,958,620</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Investments measured at the net asset value (NAV)</b>				
Domestic Equities	38,253,178			
Global Equities	42,017,278			
Fixed Income	4,103,142			
Real Assets	4,187,984			
Hedge Funds	53,666,126			
Private Investments	31,887,137			
<b>Total investments measured at the NAV</b>	<b>174,114,845</b>			
<b>Total investments measured at Fair Value</b>	<b>\$ 229,073,465</b>			

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table:

Investments measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equities:				
Domestic Equities	\$ 38,253,178	\$ -	Monthly / Quarterly	5 - 40 Days
Global Equities	34,964,372	-	Monthly / Quarterly	6 - 60 Days
Emerging Markets	7,052,906	-	Monthly	7 - 30 Days
Fixed Income:				
Domestic Fixed Income	4,101,742	-	Daily	2 Days
Global Bonds	1,400	-	Monthly	10 Days
Real Assets:				
Natural Resources Equities	4,187,984	-	Monthly	30 Days
Hedge Funds:				
Fund of Funds	2,098,202	-	Quarterly	90 Days
Long/Short Equity	25,003,830	-	Quarterly - Every 3 Years	30 - 180 Days
Event Driven/Open Mandate	21,183,173	-	Quarterly - Annually	30 - 90 Days
Global Macro	5,380,921	-	Monthly	3 - 15 Days
Private Investments:				
Private Equity	16,186,951	14,937,417	Illiquid	N/A
Venture Capital	15,700,186	4,619,428	Illiquid	N/A
<b>Total investments measured at the NAV</b>	<b>\$ 174,114,845</b>	<b>\$ 19,556,845</b>		

## **Net Asset Value**

The investments held at net asset value reflect:

*Domestic Equities:* This category includes investments in publically listed equities of companies domiciled in the U.S.

*Global Equities:* This category includes investments in publically listed equities of companies domiciled globally.

*Emerging Markets:* This category includes investments in publically listed equities of companies listed in markets which have been categorized as emerging.

*Domestic Fixed Income:* This category includes investments in publically traded debt instruments traded in the U.S.

*Global Bonds:* This category includes investments in globally listed public debt instruments.

*Natural Resources Equities:* This category includes investments in publically listed equities of companies that derive a substantial portion of their operations from natural resources related business operations.

*Fund of Funds:* This category includes investments in hedge funds that invest in a portfolio of other hedge funds.

*Long/Short Equity:* This category includes investments in hedge funds that invest domestically and globally in both long and short common stocks across all market capitalizations. These investments offer a low correlation to traditional long-only equity benchmarks in order to achieve absolute return. Management of the hedge funds may opportunistically shift investments across sectors, geographies, and net market exposures.

*Event Driven/Open Mandate:* This category includes investments in hedge funds that invest in event-driven strategies including merger arbitrage, distressed debt, and convertible arbitrage to achieve returns.

*Global Macro:* This category includes investments in hedge funds that invest in global macro strategies including long and short equities, currencies, commodities, etc. based on evaluation of macroeconomic trends.

*Private Equity:* This category includes investments in several limited partnership funds that invest in equity securities and debt of private companies or conduct buyouts of public companies the result in a delisting of public equity. The nature of the investment in this category prohibits redemptions through the duration of the partnership, which ranges between 10 to 15 years. Distributions are received through the liquidation of underlying assets of the funds.

*Venture Capital:* This category includes investments in several limited partnership funds that invest in early-stage, high-potential startup companies or small businesses that do not have access to public funding. The nature of the investment in this category prohibits redemptions through the duration of the partnership, which ranges between 10 to 15 years. Distributions are received when underlying companies are exited via acquisition or IPO.

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2016, the Finance Corporation money market mutual fund investments were rated AAAM by Standards & Poor's.

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of the investments in a single issuer. The Foundation maintains certain investment accounts with financial institutions which are not insured by the FDIC. These funds may be subject to insurance by Securities

Investor Protection Corporation, subject to various limitations. At June 30, 2016, approximately \$228,600,000 was held in these accounts. The Foundation believes that the number, diversity, and financial strength of the issuers mitigates the credit risks associated with all investments.

The Finance Corporation also maintains investment accounts with financial institutions that are not insured by the FDIC. These investments are made in accordance with the trust indenture. Money market fund shares are not guaranteed by the Federal Government. Investments are reported at fair value of \$4,327,782 at June 30, 2016. The Finance Corporation believes that the number, diversity, and financial strength of the issuers mitigates the credit risks associated with all investments.

All of the Finance Corporation's investments at June 30, 2016, are held with Regions Morgan Keegan and are invested in money market mutual funds. According to the bond indenture, the Finance Corporation can invest the bond proceeds in these investment vehicles; there are no stated limitations on the amount that can be invested in any one issuer. The short term nature of the investments is due to liquidity needs, since those funds are being used for operating expenses, debt service payments, and stadium construction costs.

*Interest Rate Risk:* Interest rate risk is the risk that changing interest rates will adversely affect the fair value of an investment. A portfolio's weighted average days to maturity (WAM) reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the fund to interest rate changes. A portfolio's weighted average life (WAL) calculation is based on a security's stated final maturity date or, when relevant, the date of the next demand feature when the fund may receive payment of principal and interest. WAL reflects how a portfolio would react to deteriorating credit or tightening liquidity conditions. The Finance Corporation's money market mutual fund's WAM as June 30, 2016, was 42 days, while the WAL was 90 days at June 30, 2016.

#### 4. Receivables

**Accounts Receivable.** Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2016, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Student Tuition and Fees	\$ 18,524,848
Contracts and Grants	8,177,945
Other	308,621
<b>Total Accounts Receivable</b>	<b><u><u>\$ 27,011,414</u></u></b>

**Loans and Notes Receivable.** Loans and notes receivable represent all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs.

**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, and loans and notes receivable, are reported net of allowances of \$11,772,871 and \$1,619,239, respectively, at June 30, 2016.

## 5. Due From State

The amount due from State consists of \$25,410,067 of Public Education Capital Outlay and \$18,861,222 of Capital Improvement Fee Trust Fund for construction of University facilities.

## 6. Due From and To Component Units/University

The University's financial statements are reported for the fiscal year ended June 30, 2016. One component unit is not presented (see Note 1.). Additionally, component units' due from and due to amounts include receivables and payables between the various component units. Accordingly, amounts reported by the University as due from and to component units on the statement of net position do not agree with amounts reported by the component units as due from and to the University.

## 7. Capital Assets

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 28,671,778	\$ 1,745,800	\$ -	\$ 30,417,578
Works of Art and Historical Treasures	4,277,252	279,485	-	4,556,737
Construction in Progress	125,318,566	44,062,491	107,556,428	61,824,629
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 158,267,596</b>	<b>\$ 46,087,776</b>	<b>\$ 107,556,428</b>	<b>\$ 96,798,944</b>
Depreciable Capital Assets:				
Buildings	\$ 1,024,970,584	\$ 91,450,547	\$ -	\$ 1,116,421,131
Infrastructure and Other Improvements	18,793,328	15,651,103	-	34,444,431
Furniture and Equipment	125,142,933	10,389,680	2,544,089	132,988,524
Library Resources	108,851,952	4,670,854	494,250	113,028,556
Property Under Capital Leases and Leasehold Improvements	1,789,567	-	-	1,789,567
Computer Software	2,945,881	471,978	10,376	3,407,483
<b>Total Depreciable Capital Assets</b>	<b>1,282,494,245</b>	<b>122,634,162</b>	<b>3,048,715</b>	<b>1,402,079,692</b>
Less, Accumulated Depreciation:				
Buildings	301,796,317	26,802,604	-	328,598,921
Infrastructure and Other Improvements	14,339,745	737,910	-	15,077,655
Furniture and Equipment	86,649,248	9,672,734	2,378,691	93,943,291
Library Resources	74,227,094	8,221,407	478,946	81,969,555
Property Under Capital Leases and Leasehold Improvements	315,655	101,224	-	416,879
Computer Software	1,758,433	385,976	1,436	2,142,973
<b>Total Accumulated Depreciation</b>	<b>479,086,492</b>	<b>45,921,855</b>	<b>2,859,073</b>	<b>522,149,274</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 803,407,753</b>	<b>\$ 76,712,307</b>	<b>\$ 189,642</b>	<b>\$ 879,930,418</b>

## 8. Unearned Revenue

Unearned revenue at June 30, 2016, includes contracts and grant payments received in advance, nonrefundable admission fees, prepaid stadium rental income received from the Finance Corporation, food service revenue, conference center fees, and land use fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2016, the University reported the following amounts as unearned revenue:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 3,316,586
Admission Fees	1,798,249
Stadium Rental Income	1,304,083
Food Service Revenue	920,160
Conference Center Fees	104,528
Land Use Fees	52,381
<b>Total Unearned Revenue</b>	<b>\$ 7,495,987</b>

## 9. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2016, include capital improvement debt payable, capital lease payable, compensated absences payable, other postemployment benefits payable, the long-term portion of unearned revenue, liability for self-insured claims, net pension liability, and other long-term liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2016, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Capital Improvement Debt Payable	\$ 173,650,167	\$ 31,099,510	\$ 39,489,355	\$ 165,260,322	\$ 7,184,422
Capital Lease Payable	620,510	-	428,199	192,311	192,311
Compensated Absences Payable	40,040,742	5,359,056	3,638,237	41,761,561	3,349,280
Other Postemployment Benefits Payable	47,684,000	22,385,000	1,953,000	68,116,000	-
Unearned Revenue	37,563,784	1,900,000	3,896,890	35,566,894	-
Liability for Self-Insured Claims	90,530	134,521	17,891	207,160	153,608
Net Pension Liability	74,087,402	112,755,806	65,348,173	121,495,035	1,768,753
Other Long-Term Liabilities	2,259,101	82,065	-	2,341,166	-
<b>Total Long-Term Liabilities</b>	<b>\$ 375,996,236</b>	<b>\$ 173,715,958</b>	<b>\$ 114,771,745</b>	<b>\$ 434,940,449</b>	<b>\$ 12,648,374</b>

**Capital Improvements Debt Payable.** The University had the following capital improvement debt payable outstanding at June 30, 2016:

<b>Capital Improvement Debt Type and Series</b>	<b>Amount of Original Debt</b>	<b>Amount Outstanding (1)</b>	<b>Interest Rates (Percent)</b>	<b>Maturity Date To</b>
Student Housing Debt:				
2011A Student Apartments Refunding	\$ 22,210,000	\$ 16,988,396	3.00 to 5.00	2025
2012A Student Apartments	53,655,000	50,922,388	3.00 to 4.25	2041
2015A Student Apartments Refunding	29,105,000	27,056,041	3.00 to 5.00	2034
<b>Total Student Housing Debt</b>	<u>104,970,000</u>	<u>94,966,825</u>		
Parking Garage Debt:				
2009A&B Parking Garage	32,000,000	27,460,000	4.80 to 6.875	2039
2013A Parking Garage	48,365,000	42,833,497	3.00 to 5.25	2043
<b>Total Parking Garage Debt</b>	<u>80,365,000</u>	<u>70,293,497</u>		
<b>Total Capital Improvement Debt</b>	<u>\$ 185,335,000</u>	<u>\$ 165,260,322</u>		

Note: (1) Amount outstanding includes unamortized premiums and deferred losses on refunding issues.

The University has pledged a portion of future housing rental revenues, traffic and parking fees, and an assessed transportation fee per student to repay \$185,335,000 of capital improvement (housing and parking) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct parking garages and student housing facilities. The bonds are payable solely from housing rental income, parking fees, and assessed transportation fees per student and are payable through 2043. The University has committed to appropriate each year from the housing rental income, parking fees, and assessed transportation fees per student amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$258,086,516, and principal and interest paid for the current year totaled \$16,220,537. During the 2015-16 fiscal year, housing rental income, traffic and parking fees, and assessed transportation fees totaled \$30,567,829, \$5,155,866, and \$10,434,966, respectively.

The University extinguished long-term capital improvement debt obligations by the issuance of new long-term capital improvement debt instruments as follows:

- On July 21, 2015, the Florida Board of Governors issued \$29,105,000 of Capital Improvement Housing Revenue Refunding Bonds, Series 2015A. The capital improvement debt proceeds were used to defease \$30,055,000 of outstanding Capital Improvement Housing Revenue and Refunding Bonds, Series 2004A. The proceeds will be placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's statement of net position. As a result of the refunding, the University reduced its capital improvement debt service requirement by \$4,014,843 over the next 19 years and obtained an economic gain of \$3,018,991. At June 30, 2015, the outstanding balance of the defeased debt was \$30,055,000.

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



<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 6,885,000	\$ 7,437,915	\$ 14,322,915
2018	7,195,000	7,117,585	14,312,585
2019	7,530,000	6,768,605	14,298,605
2020	7,280,000	6,412,865	13,692,865
2021	7,610,000	6,069,390	13,679,390
2022-2026	34,720,000	25,998,800	60,718,800
2027-2031	30,955,000	18,939,425	49,894,425
2032-2036	29,970,000	11,874,025	41,844,025
2037-2041	26,340,000	4,691,156	31,031,156
2042-2043	3,990,000	301,750	4,291,750
<b>Subtotal</b>	162,475,000	95,611,516	258,086,516
Net Premiums and Losses on Bond Refundings	2,785,322	-	2,785,322
<b>Total</b>	<b>\$ 165,260,322</b>	<b>\$ 95,611,516</b>	<b>\$ 260,871,838</b>

**Capital Lease Payable – Related Party Transaction.** Land and a building in the amount of \$1,037,000 are being acquired under a capital lease agreement with the Foundation. The stated interest rate is 6.6 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2016, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 208,680
<b>Total Minimum Payments</b>	208,680
Less, Amount Representing Interest	16,369
<b>Present Value of Minimum Payments</b>	<b>\$ 192,311</b>

**Compensated Absences Payable.** Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Florida 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, 2016, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$41,761,561. The current portion of the compensated absences liability, \$3,349,280, 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 plan (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 other postemployment benefit (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. For the 2015-16 fiscal year, 399 retirees received postemployment healthcare benefits. The University provided required contributions of \$1,953,000 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$2,844,000, which represents 0.8 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 13,783,000
Amortization of Unfunded Actuarial Accrued Liability	7,602,000
Interest on Normal Cost and Amortization	855,000
<b>Annual Required Contribution</b>	22,240,000
Interest on Net OPEB Obligation	1,907,000
Adjustment to Annual Required Contribution	(1,762,000)
<b>Annual OPEB Cost (Expense)</b>	22,385,000
Contribution Toward the OPEB Cost	(1,953,000)
<b>Increase in Net OPEB Obligation</b>	20,432,000
Net OPEB Obligation, Beginning of Year	47,684,000
<b>Net OPEB Obligation, End of Year</b>	<u>\$ 68,116,000</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, 2016, and for the 2 preceding fiscal years were as follows:

<u>Fiscal Year</u>	<b>Percentage of</b>		
	<b>Annual</b>	<b>Annual</b>	<b>Net OPEB</b>
	<b>OPEB Cost</b>	<b>OPEB Cost</b>	<b>Obligation</b>
		<b>Contributed</b>	
2013-14	\$ 12,314,000	9.4%	\$ 37,348,000
2014-15	11,438,000	9.6%	47,684,000
2015-16	22,385,000	8.7%	68,116,000

*Funded Status and Funding Progress.* As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$205,746,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$205,746,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$370,763,485 for the 2015-16 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 55.5 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. Amounts determined 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, 2016, and the University's 2015-16 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 3.1 percent, 7.5 percent, and 8.8 percent for the first 3 years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 3 percent, 5.7 percent, and 7 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 60 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, 2016, was 21 years.

**Unearned Revenue.** Long-term unearned revenue at June 30, 2016, includes Public Education Capital Outlay appropriations for which the University had not yet received approval from the Florida Department of Education to spend the funds. Also included are prepaid stadium rental income received from the Finance Corporation, land use fees, a National Institute of Health grant, and other unearned revenues received prior to the fiscal year-end related to subsequent accounting periods. As of June 30, 2016, the University reported the following amounts as long-term unearned revenue:

<u>Description</u>	<u>Amount</u>
Stadium Rental Income	\$ 20,756,657
State Capital Appropriations	10,000,000
Land Use Fees	2,013,569
National Institute of Health Grant	1,900,000
Other Unearned Revenue	896,668
<b>Total Unearned Revenue</b>	<b>\$ 35,566,894</b>

**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, 2016, the University's proportionate share of the net pension liabilities totaled \$121,495,035. Note 12. includes a complete discussion of defined benefit pension plans.

**Other Long-Term Liabilities.** Primarily represents the University's liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan program. This amount will ultimately be returned to the Federal Government should the University cease making Federal Perkins Loans or have excess cash in the loan program.

## **10. Discretely Presented Component Unit Debt Issues**

### **Notes Payable – Florida International University Foundation, Inc.**

On January 20, 2000, the Miami-Dade County Educational Facilities Authority (the Authority) issued \$13 million tax-exempt revenue bonds (Florida International University Foundation Project – Series 1999). These bonds are payable from and secured by a pledge of payments to be made to the Authority under a loan agreement dated December 1, 1999, between the Foundation and the Authority.

The bonds are secured by an irrevocable letter of credit issued by a commercial bank as described below. The Foundation will finance the payments to the Authority under the loan agreement with lease payments received from the University under an operating lease (see Note 16.). The \$13 million original principal amount was issued under a variable rate structure with a final maturity date of May 1, 2022. The bond proceeds were used to acquire, construct, and equip a multi-function support complex located on the Modesto A. Maidique campus and to pay issuance costs. As of June 30, 2016, the outstanding principal

balance due under this note payable was \$5.4 million. For the year ended June 30, 2016, total interest incurred and paid was \$101,667.

On December 1, 1999, the Foundation entered into a letter of credit agreement with a commercial bank that permitted the Foundation to borrow up to \$13 million through December 15, 2004, bearing interest at the prime rate plus 2 percent. On November 29, 2004, this agreement was extended, with the same terms and conditions, through December 15, 2009. There were two additional extensions subsequent to that date through July 30, 2010. The Foundation must pay an annual commitment fee of 0.45 percent on the unused portion of the commitment. Borrowings under the financing agreement mature 90 days after the date of the borrowing.

Under the letter of credit agreement and loan agreement noted above, the Foundation is obligated under certain debt covenants with which they are in compliance.

The bonds were repurchased by the Trustee under a commercial bank letter of credit due to the diminishing ability to remarket the variable rate demand bonds in the public marketplace. On July 30, 2010, the bank converted the variable rate demand bonds into a 5-year tax exempt qualified loan. After the initial 5-year period, the bank would have the right to require the Foundation to refinance the bank qualified loan or could agree to extend the maturity date for an additional 5-year period. The Foundation agrees to pay interest at a rate of 67 percent of the 1-month London Interbank Offered Rate (LIBOR) plus 1.68 percent. The bond maturity date of May 1, 2022, remains unchanged as does the swap agreement. On July 30, 2010, the Foundation paid \$52,213 in refinancing fees to complete this transaction. Since the terms remained substantially the same and the present value of the cash outflows is not substantially different, this is not considered an exchange of debt instruments.

The aggregate maturities of the notes payable, as of June 30, 2016, are shown in the following table:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 785,000
2018	825,000
2019	865,000
2020	910,000
2021	960,000
Thereafter	<u>1,075,000</u>
<b>Total</b>	<b><u>\$ 5,420,000</u></b>

**Notes Payable – The Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. – Related Party Transaction**

On August 27, 2010, the Health Care Network entered into a loan agreement totaling \$5,321,198 with the University in order to provide working capital and build out capital to fund the expansion of the faculty practice plan and the establishment of the ambulatory care center and other University clinical activities. In June of 2015, the Health Care Network renegotiated the loan agreement with the University and borrowed an additional \$3,109,385. The total loaned by the University to Health Care Network is \$8,663,962. Interest on the loan accrues at 2 percent simple interest and the loan is scheduled to mature on June 1, 2036.

Estimated principal and interest payments for the life of the amounts due to the University based on the balances as of June 30, 2016, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 306,030	\$ 166,770	\$ 472,800
2018	316,878	160,650	477,528
2019	327,991	154,312	482,303
2020	339,374	147,752	487,126
2021	351,033	140,965	491,998
2022-2026	1,940,128	594,651	2,534,779
2027-2031	2,276,582	387,498	2,664,080
2032-2036	2,480,506	145,060	2,625,566
<b>Total</b>	<b>\$ 8,338,522</b>	<b>\$ 1,897,658</b>	<b>\$ 10,236,180</b>

### **Bonds Payable – FIU Athletics Finance Corporation**

On December 1, 2009, the Finance Corporation issued \$30,000,000 of Miami-Dade County Industrial Development Authority Revenue Bonds Series 2009A and \$5,310,000 of Miami-Dade County Industrial Development Authority Taxable Revenue Bonds Series 2009B.

These bonds were issued and secured under and pursuant to the Trust Indenture. Repayments of the bonds will be payable from pledged revenues, which are all operating and nonoperating revenues. Principal payments for the bonds began March 1, 2010. Interest payments are made on a quarterly basis. The interest rate on the Series 2009A bonds is equal to the sum of 63.7 percent of the 3-month LIBOR plus 1.90 percent. The interest rate on the Series 2009B bonds shall be at a rate equal to the 3-month LIBOR plus 2.65 percent. The total proceeds from the new bond issues were used solely to retire and refund the outstanding Series 2007A and Series 2007B bonds and pay costs of issuance of the bonds and other refinancing costs. The bonds are secured by operating and nonoperating revenues as well as University athletic fees, not to exceed 5 percent of the total athletic fees collected. Total principal due at June 30, 2016, was \$30,718,607.

The Finance Corporation has funded a debt service reserve fund in accordance with the bond indenture requirement of maintaining an amount equal to the maximum allowable debt service on the bond in the current and any future fiscal year. This debt service reserve fund currently totals \$2,690,039 and is included in restricted investments.

The Finance Corporation is required to maintain minimum deposits of \$1,000,000 with a bank. The deposit is to be held in an interest-bearing additional reserve fund and is included in restricted cash.

The interest rate on these bonds is both fixed and variable and is subject to a swap agreement (see Note 11.) that was entered into to reduce the exposure to market risks from changing interest rates. Interest is computed on the basis of the actual number of days elapsed over a year of 365 or 366 days.

The aggregate maturities of these bonds as of June 30, 2016, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,090,035	\$ 1,649,191	\$ 2,739,226
2018	1,300,000	1,592,684	2,892,684
2019	1,357,143	1,522,802	2,879,945
2020	1,421,429	1,449,849	2,871,278
2021	1,485,714	1,373,440	2,859,154
2022-2026	8,507,143	5,593,976	14,101,119
2027-2031	10,607,143	3,092,065	13,699,208
2032-2033	4,950,000	402,396	5,352,396
<b>Total</b>	<b>\$ 30,718,607</b>	<b>\$ 16,676,403</b>	<b>\$ 47,395,010</b>

## 11. Derivative Financial Instruments – Discretely Presented Component Units

The Finance Corporation entered into a derivative instrument (i.e., interest rate swap agreement) to reduce its exposure to market risks from changing interest rates. For interest rate swap agreements, the differential to be paid or received is accrued and recognized as interest expense and may change as market interest rates change. The interest rate swap agreement entered into by the Finance Corporation is discussed below.

### FIU Athletics Finance Corporation

*Objectives.* As a means to lower its borrowing costs and increase its savings, the Finance Corporation entered into an interest rate swap agreement in connection with its \$30,000,000 2009A Miami-Dade County Industrial Development Authority Revenue Bond issuance. The intention of the interest rate swap agreement was to effectively change the Finance Corporation's variable interest rate on the bonds to a synthetic fixed rate of 5.50 percent, which is the fixed rate payable by the Finance Corporation under the interest rate swap agreement of 3.60 percent plus 1.90 percent.

*Terms.* On December 22, 2009, the Finance Corporation entered into an interest rate swap agreement to hedge the floating-rate on \$21,000,000 of the principal amount of the 2009A bonds. This represents the fixed portion of the tax exempt bonds payable mentioned above. Under the interest rate swap agreement, the Finance Corporation agrees to pay a fixed rate of 3.60 percent and receive a variable rate equal to 63.7 percent of the 3-month LIBOR. The interest rate swap agreement has a maturity date of March 1, 2033.

*Fair Value.* As of June 30, 2016, the Finance Corporation interest rate swap agreement has a derivative liability of \$5,351,887 as included with reported other long-term liabilities in the statement of net position. The negative fair value was determined using Mark-to-Market Value and represents the closing mid-market values.

As of June 30, 2016, the fair value of the Series 2007A ineffective interest rate swap agreement was \$1,622,154, which is included with reported other long-term liabilities. This interest rate swap agreement was not terminated when the bonds were refunded in December 2009. The interest rate on the refunding Series 2009A bonds reflects a higher rate due to not terminating this interest rate swap agreement. Accordingly, the fair value of \$1,622,154 of the ineffective Series 2007A interest rate swap agreement is being amortized over the remaining life of the refunding Series 2009A bonds.

The synthetic instrument method evaluates the effectiveness of a potential hedging derivative instrument by quantitative approach. The synthetic instrument method evaluates effectiveness by combining the hedgeable item and the potential hedging derivative instrument to simulate a third synthetic instrument. A potential hedging derivative instrument is effective if its total variable cash flows substantially offset the variable cash flows of the hedgeable item. The Finance Corporation determined that it met the criteria of the synthetic instrument method. Therefore, the change in the fair value of the effective interest rate swap agreement is presented in the component units' column of the statement of net position as a deferred outflow of resources in the amount of \$3,729,734.

*Credit Risk.* As of June 30, 2016, the Finance Corporation was not exposed to credit risk because the interest rate swap agreement had a negative fair value. However, should interest rates change and the fair value of the interest rate swap agreement become positive, the Finance Corporation would be exposed to credit risk in the amount of the derivative's fair value. The interest rate swap agreement counterparty was rated A3 by Moody's Investors Service, BBB+ by Standard and Poor's, and BBB by Fitch Ratings at June 30, 2016.

*Basis Risk.* Basis risk arises when different indexes are used in connection with a derivative. Given that both the bond and the interest rate swap agreement are based on 63.7 percent of the 3-month LIBOR rate, there is limited basis risk.

*Termination Risk.* The derivative contract uses the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The schedule to the Master Agreement includes an "additional termination event". That is, the interest rate swap agreement may be terminated if: (i) the loan or other indebtedness in connection with which a transaction entered into by the Finance Corporation for the purpose or with the effect of altering the net combined payment from a floating to fixed or a fixed to floating-rate basis is repaid, whether upon acceleration of principal, at maturity, or otherwise, or for any other reason ceases to be an obligation of the Finance Corporation, with or without the consent of the counterparty; or (ii) any credit support document expires, terminates, or ceases to be of full force and effect. Also, the interest rate swap agreement may be terminated or assigned by the Finance Corporation if the counterparty's long-term, senior, unsecured, unenhanced debt rating is withdrawn, suspended, or falls below at least two of the following: (a) "Baa3" as determined by Moody's Investor Services, (b) "BBB+" as determined by Standard and Poor's, or (c) "BBB" as determined by Fitch Ratings.

*Swap Payments and Associated Debt.* Using rates as of June 30, 2016, debt service requirements of the variable-rate portion of the debt and net swap payments, assuming current interest rates remain the same for their term, are as follows:



Fiscal Year Ending June 30	Variable-Rate Bond		Interest Rate	Total
	Principal	Interest	Swap, Net	
2017	\$ 260,000	\$ 485,429	\$ 669,571	\$ 1,415,000
2018	910,000	479,419	661,281	2,050,700
2019	950,000	458,383	632,267	2,040,650
2020	995,000	436,424	601,976	2,033,400
2021	1,040,000	413,424	570,251	2,023,675
2022-2026	5,955,000	1,683,860	2,322,615	9,961,475
2027-2031	7,425,000	930,752	1,283,823	9,639,575
2032-2033	3,465,000	121,124	167,076	3,753,200
<b>Total</b>	<b>\$ 21,000,000</b>	<b>\$ 5,008,815</b>	<b>\$ 6,908,860</b>	<b>\$ 32,917,675</b>

Note: As rates vary, variable-rate bond interest payments and net swap payments will vary.

## 12. Retirement Plans – Defined Benefit Pension Plans

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

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the 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 \$14,505,288 for the fiscal year ended June 30, 2016.

### FRS Pension Plan

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

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

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

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

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

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

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

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

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

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

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

The University's contributions to the Plan totaled \$14,085,792 for the fiscal year ended June 30, 2016.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2016, the University reported a liability of \$73,303,925 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The University's proportionate share of the net pension liability was based on the University's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal

year contributions of all participating members. At June 30, 2015, the University's proportionate share was 0.567528557 percent, which was an increase of 0.041749458 from its proportionate share measured as of June 30, 2014.

For the year ended June 30, 2016, the University recognized pension expense of \$10,243,877. 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	\$ 7,738,724	\$ 1,738,546
Change of assumptions	4,865,427	-
Net difference between projected and actual earnings on FRS Plan investments	-	17,503,751
Changes in proportion and differences between University contributions and proportionate share of contributions	22,547,029	-
University FRS contributions subsequent to the measurement date	14,085,792	-
<b>Total</b>	<b>\$ 49,236,972</b>	<b>\$ 19,242,297</b>

The deferred outflows of resources related to pensions totaling \$14,085,792, resulting from University contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ (795,837)
2018	(795,837)
2019	(795,837)
2020	13,645,304
2021	3,902,898
Thereafter	748,192
<b>Total</b>	<b>\$ 15,908,883</b>

*Actuarial Assumptions.* The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.65 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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

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

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

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

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

	<b>1% Decrease (6.65%)</b>	<b>Current Discount Rate (7.65%)</b>	<b>1% Increase (8.65%)</b>
University's proportionate share of the net pension liability	\$ 189,947,048	\$ 73,303,925	\$ (23,762,313)

*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, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS 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, 2016, 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 \$2,473,222 for the fiscal year ended June 30, 2016.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions.* At June 30, 2016, the University reported a liability of \$48,191,110 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 1 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, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to the HIS Plan actuarial valuation as of July 1, 2014. The University's proportionate share of the net pension liability was based on the University's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the University's proportionate share was 0.472534740 percent, which was an increase of 0.023272189 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the University recognized pension expense of \$4,261,411. In addition, the University reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 3,791,383
Net difference between projected and actual earnings on HIS Plan investments	26,087
Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions	3,781,452
University HIS contributions subsequent to the measurement date	<u>2,473,222</u>
<b>Total</b>	<b><u>\$ 10,072,144</u></b>

The deferred outflows of resources totaling \$2,473,222 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, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 1,331,440
2018	1,331,440
2019	1,331,440
2020	1,326,137
2021	1,323,592
Thereafter	<u>954,873</u>
<b>Total</b>	<b><u>\$ 7,598,922</u></b>

*Actuarial Assumptions.* The total pension liability at July 1, 2015, determined by applying update procedures to the actuarial valuation at July 1, 2014, used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Municipal bond rate	3.80 percent

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

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

*Discount Rate.* The discount rate used to measure the total pension liability was 3.8 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was

adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 4.29 percent from the prior measurement date.

*Sensitivity of the 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 3.8 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 (2.8 percent) or 1 percentage point higher (4.8 percent) than the current rate:

	<b>1% Decrease (2.80%)</b>	<b>Current Discount Rate (3.80%)</b>	<b>1% Increase (4.80%)</b>
University's proportionate share of the net pension liability	\$ 54,911,527	\$ 48,191,110	\$ 42,587,292

*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.

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

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. 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 0.04 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2015-16 fiscal year were as follows:

<b>Class</b>	<b>Percent of Gross Compensation</b>
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, 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the 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 \$2,356,656 for the fiscal year ended June 30, 2016.

**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, 2.65 percent to cover the unfunded actuarial liability of the FRS pension plan, 0.01 percent to cover administrative costs, for a total of 7.8 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the 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 \$17,191,212 and employee contributions totaled \$11,326,033 for the 2015-16 fiscal year.

## **14. Construction Commitments**

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

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Recreation Center Expansion	\$ 21,314,245	\$ 2,368,465	\$ 18,945,780
Auxiliary Construction Projects	11,906,341	6,554,226	5,352,115
University City Prosperity Project	10,943,931	1,465,808	9,478,123
Athletics Practice Fields	8,889,570	279	8,889,291
User Paid Construction Projects	6,021,034	690,892	5,330,142
<b>Subtotal</b>	59,075,121	11,079,670	47,995,451
Projects with Balances Committed Under \$3 Million	71,610,523	50,744,959	20,865,564
<b>Total</b>	<b>\$ 130,685,644</b>	<b>\$ 61,824,629</b>	<b>\$ 68,861,015</b>

## 15. Operating Lease Commitments

The University leased building space under operating leases, which expire in 2034. These leased assets and the related commitments are not reported on the University's statement of net position. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Included in the annual payments below are the minimum payments required for the operating lease due to the Foundation as described in Note 16. Future minimum lease commitments for noncancelable operating leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 4,573,752
2018	4,731,897
2019	4,825,396
2020	4,922,255
2021	6,450,174
2022-2026	8,280,801
2027-2031	5,682,407
2032-2034	3,744,141
<b>Total Minimum Payments Required</b>	<b>\$ 43,210,823</b>

## 16. Operating Lease Commitments – Related Party Transactions

### Florida International University Foundation, Inc.

On December 1, 1999, the former Board of Regents of the State University System of the State of Florida for and on behalf of the University entered into a ground lease agreement with the Foundation. Under this agreement, the Foundation leases from the University the grounds on which a multi-function support complex facility was built on the Modesto A. Maidique campus. The consideration required to be paid by the Foundation is \$10 annually. The ground lease will expire on December 31, 2024, or on the date the Foundation makes its final payment under a letter of credit agreement related to the financing of the facility. Total amounts paid to the Foundation under this agreement were \$1,692,276 for the fiscal year ended June 30, 2016.

On December 1, 1999, the former Board of Regents on behalf of the University also entered into a 20-year operating lease agreement with the Foundation for the facility. Under the terms of the operating lease,

the University will pay the Foundation rent in the amount equal to all amounts due and payable by the Foundation under the letter of credit agreement, if any, and loan agreement related to the financing of the facility. The payments also include any costs of operating and maintaining the facility, in addition to amounts necessary to pay any unanticipated and extraordinary costs. The lease commenced during August 2002 when the facility became operational. The lease will terminate on May 1, 2022, which is the date of maturity of the loan agreement.

The facility under the above operating lease is not recorded as an asset on the statement of net position; however, the operational lease payments are recorded as expenses in the statement of revenues, expenses, and changes in net assets when paid or incurred.

The following schedule by years presents management's best estimate of future minimum rental payments for this noncancelable operating lease as of June 30, 2016.

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 1,363,000
2018	1,418,000
2019	1,418,000
2020	1,418,000
2021	1,418,000
Thereafter	1,418,000
<b>Total Minimum Payments Required</b>	<b>\$ 8,453,000</b>

### **FIU Athletics Finance Corporation**

The University and the Finance Corporation entered into two 25-year ground sublease agreements dated April 1, 2007, rendering the rights to the Finance Corporation to issue a series of capital improvement bonds of which a portion of the proceeds, along with contributions from the University, was used to finance a stadium improvement project located on University premises. Under this agreement, the Finance Corporation prepaid to the University, for rental of the premises, the sum of \$31,937,211.

The following schedule by years represents management's best estimate of future minimum rental expense that will be recognized for these sublease agreements:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 1,304,083
2018	1,304,083
2019	1,304,083
2020	1,304,083
2021	1,304,083
2022-2026	6,520,416
2027-2031	6,520,416
2032-2033	2,499,493
<b>Total Minimum Payments Required</b>	<b>\$ 22,060,740</b>

## **17. Gift Agreement – Florida International University Foundation, Inc.**

The Wolfsonian, Inc. (Wolfsonian) was established in 1986 to create and operate a museum and research center in Miami Beach, Florida, and to support a comprehensive program focused on the collection, exhibition, interpretation, preservation, research and publication of the decorative, or design and architectural arts. The Wolfsonian has been loaned the Mitchell Wolfson, Jr. collection of nearly 27,000 objects of art and rare books dating from the late nineteenth to the mid-twentieth century. It encompasses furniture, sculpture, paintings, books, graphics and other works of art on paper, as well as archives relating to the period. Through a series of academic study and fellowship programs, national and international traveling exhibitions, and scholarly initiatives, the Wolfsonian promotes public education and awareness of the social, historical, technological, political, economic, and artistic material culture of Europe and America in the 1885-1945 period.

On July 1, 1997, the Foundation entered into a gift agreement (Agreement) with Mitchell Wolfson, Jr., the Wolfsonian, and the University, whereby Mitchell Wolfson, Jr. agreed to donate all rights, title, and interest in and to all objects constituting the Mitchell Wolfson, Jr. Collection of Decorative and Propaganda Arts to the Foundation, subject to a loan agreement made and entered into by the Wolfsonian and Mr. Wolfson, Jr. dated July 29, 1991. The loan agreement was extended through to July 2021.

The Foundation has elected to exercise the option of not capitalizing the items that meet the definition of “collection” as prescribed by accounting principles generally accepted in the United States. Therefore, the fair value of the donated Collection of Decorative and Propaganda Arts is not reflected in the University's financial statements. Purchases of collection items are recorded as decreases in unrestricted net position in the year in which the items are acquired, or as temporarily or permanently restricted net position if the assets used to purchase the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net position classes.

As a result of the Agreement, the Wolfsonian amended its articles of incorporation and bylaws to provide that all its directors be appointed and removed at any time with or without cause by the Foundation, to effect a transfer of complete control of all of the assets, interest, and obligations of the Wolfsonian to the Foundation. On May 26, 1999, the Foundation passed a revision to the bylaws of the Wolfsonian to make the Foundation the sole voting member of the Wolfsonian.

The gifts are conditional upon the provisions outlined in the Agreement including, but not limited to, the Foundation continuing the museum and educational activities and operations that were conducted by the Wolfsonian. As a result of the Agreement, the University and Foundation have assumed all administrative functions and operating costs of the Wolfsonian.

The most significant of the obligations under the Agreement is for the University to provide the Wolfsonian with the same financial support from its general budget, as provided to other departments, and to continue the museum and educational activities and operations of the Wolfsonian. The University provided support of approximately \$3.7 million during the 2015-16 fiscal year for Wolfsonian expenses which included salaries, equipment, administrative expenses, insurance premiums for the art collection, and building security. In addition, the University provided support of approximately \$0.4 million during the 2015-16 fiscal year for utilities, repairs, and maintenance expenses for buildings used by the Wolfsonian.

## 18. 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 2015-16 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$54 million for named windstorm and flood through February 14, 2016, and increased to \$85 million starting February 15, 2016. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past 3 fiscal years.

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

**University Self-Insured Program.** The Florida International University College of Medicine Self-Insurance Program was established pursuant to Section 1004.24, Florida Statutes, on June 18, 2009. The Self-Insurance Program provides professional and general liability protection for the Florida International University Board of Trustees for claims and actions arising from the clinical activities of the College of Medicine faculty, staff, and resident physicians. Liability protection is afforded to the students of the College. The Self-Insurance Program provides legislative claims bill protection.

The University is protected for losses that are subject to Section 768.28, Florida Statutes, to the extent of the waiver of sovereign immunity as described in Section 768.28(5), Florida Statutes. The Self-Insurance Program also provides \$1,000,000 per legislative claims bills inclusive of payments made pursuant to Section 768.28, Florida Statutes; \$250,000 per occurrence of protection for the participants that are not subject to the provisions of Section 768.28, Florida Statutes; \$250,000 per claim protection for participants who engage in approved community service or act as Good Samaritans; and student

professional liability coverage not to exceed a per occurrence limit of \$1,000,000 if such limits are required by an affiliated hospital or healthcare affiliate.

The Self-Insurance Program's estimated liability for unpaid claims at fiscal year-end is the result of management and actuarial analysis and includes an amount for claims that have been incurred but not reported.

Changes in the balances of claims liability for the Self-Insurance Program during the 2014-15 and 2015-16 fiscal years are presented in the following table:

<b>Fiscal Year Ended</b>	<b>Claims Liabilities Beginning of Year</b>	<b>Current Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>Claims Liabilities End of Year</b>
June 30, 2015	\$ 79,830	\$ 40,510	\$ (29,810)	\$ 90,530
June 30, 2016	90,530	134,521	(17,891)	207,160

## 19. 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:

<b>Functional Classification</b>	<b>Amount</b>
Instruction	\$ 301,744,550
Research	99,281,456
Public Services	11,515,620
Academic Support	105,947,399
Student Services	64,010,565
Institutional Support	90,311,940
Operation and Maintenance of Plant	52,382,643
Scholarships, Fellowships, and Waivers	83,660,060
Depreciation	45,921,855
Auxiliary Enterprises	54,794,815
<b>Total Operating Expenses</b>	<b>\$ 909,570,903</b>

## 20. Segment Information

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

### Condensed Statement of Net Position

	<b>Housing Facility Capital Improvement Debt</b>	<b>Parking Facility Capital Improvement Debt</b>
	<u>                    </u>	<u>                    </u>
<b>Assets</b>		
Current Assets	\$ 24,183,365	\$ 9,275,361
Capital Assets, Net	124,935,437	104,264,014
Other Noncurrent Assets	6,164	2,863,243
	<u>                    </u>	<u>                    </u>
<b>Total Assets</b>	<b>149,124,966</b>	<b>116,402,618</b>
	<u>                    </u>	<u>                    </u>
<b>Liabilities</b>		
Current Liabilities	4,690,103	4,611,121
Noncurrent Liabilities	91,267,347	67,130,696
	<u>                    </u>	<u>                    </u>
<b>Total Liabilities</b>	<b>95,957,450</b>	<b>71,741,817</b>
	<u>                    </u>	<u>                    </u>
<b>Net Position</b>		
Net Investment in Capital Assets	29,477,165	34,804,190
Restricted - Expendable	6,164	2,863,243
Unrestricted	23,684,187	6,993,368
	<u>                    </u>	<u>                    </u>
<b>Total Net Position</b>	<b>\$ 53,167,516</b>	<b>\$ 44,660,801</b>
	<u>                    </u>	<u>                    </u>

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

	<b>Housing Facility Capital Improvement Debt</b>	<b>Parking Facility Capital Improvement Debt</b>
	<u>                    </u>	<u>                    </u>
Operating Revenues	\$ 30,567,829	\$ 15,590,831
Depreciation Expense	(3,712,309)	(2,888,207)
Other Operating Expenses	(16,509,257)	(8,287,571)
	<u>                    </u>	<u>                    </u>
<b>Operating Income</b>	<b>10,346,263</b>	<b>4,415,053</b>
	<u>                    </u>	<u>                    </u>
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	44,604	13,780
Interest Expense	(3,693,612)	(3,762,505)
Other Nonoperating Expense	(374,576)	-
	<u>                    </u>	<u>                    </u>
<b>Net Nonoperating Expenses</b>	<b>(4,023,584)</b>	<b>(3,748,725)</b>
	<u>                    </u>	<u>                    </u>
<b>Income Before Transfers</b>	<b>6,322,679</b>	<b>666,328</b>
Net Transfers	26,026	103,006
Capital Grants	-	589,238
	<u>                    </u>	<u>                    </u>
<b>Increase in Net Position</b>	<b>6,348,705</b>	<b>1,358,572</b>
Net Position Beginning of Year	46,818,811	43,302,229
	<u>                    </u>	<u>                    </u>
<b>Net Position, End of Year</b>	<b>\$ 53,167,516</b>	<b>\$ 44,660,801</b>
	<u>                    </u>	<u>                    </u>

## Condensed Statement of Cash Flows

	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt
Net Cash Provided (Used) by:		
Operating Activities	\$ 13,917,085	\$ 7,122,331
Noncapital Financing Activities	34,440	-
Capital and Related Financing Activities	(10,986,010)	(9,397,699)
Investing Activities	(2,914,714)	2,539,224
<b>Net Increase in Cash and Cash Equivalents</b>	50,801	263,856
Cash and Cash Equivalents, Beginning of Year	1,421,820	1,115,072
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 1,472,621</b>	<b>\$ 1,378,928</b>

### 21. Discretely Presented Component Units

The University has 3 discretely presented component units. As discussed in Note 1., the financial activities of the Research Foundation are not included in the component units' columns of the financial statements. The 3 component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is from the most recently available audited financial statements for the component units:



## Condensed Statement of Net Position

	Direct-Support Organizations			Total
	Florida International University Foundation, Inc.	FIU Athletics Finance Corporation	Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc.	
<b>Assets:</b>				
Current Assets	\$ 318,365,829	\$ 3,206,542	\$ 3,659,300	\$ 325,231,671
Capital Assets, Net	17,566,435	-	353,401	17,919,836
Other Noncurrent Assets	72,711	24,465,488	-	24,538,199
<b>Total Assets</b>	336,004,975	27,672,030	4,012,701	367,689,706
<b>Deferred Outflows of Resources</b>	-	3,989,674	-	3,989,674
<b>Liabilities:</b>				
Current Liabilities	3,825,623	1,425,916	1,665,668	6,917,207
Noncurrent Liabilities	7,650,254	35,980,459	8,032,492	51,663,205
<b>Total Liabilities</b>	11,475,877	37,406,375	9,698,160	58,580,412
<b>Net Position:</b>				
Net Investment in Capital Assets	11,448,696	-	353,401	11,802,097
Restricted Nonexpendable	209,664,592	-	-	209,664,592
Restricted Expendable	87,854,851	-	-	87,854,851
Unrestricted	15,560,959	(5,744,671)	(6,038,860)	3,777,428
<b>Total Net Position</b>	\$ 324,529,098	\$ (5,744,671)	\$ (5,685,459)	\$ 313,098,968

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

	Direct-Support Organizations			Total
	Florida International University Foundation, Inc.	FIU Athletics Finance Corporation	Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc.	
Operating Revenues	\$ 29,658,087	\$ 3,524,461	\$ 5,591,024	\$ 38,773,572
Depreciation Expense	(735,422)	-	(84,843)	(820,265)
Operating Expenses	(32,848,371)	(2,252,946)	(3,191,673)	(38,292,990)
<b>Operating (Loss) Income</b>	<b>(3,925,706)</b>	<b>1,271,515</b>	<b>2,314,508</b>	<b>(339,683)</b>
Nonoperating Revenues (Expenses):				
Investment (Loss) Income	(5,690,831)	69,426	-	(5,621,405)
Interest Expense	-	(1,340,192)	(172,679)	(1,512,871)
Loss on Disposal of Capital Assets	-	-	(34,104)	(34,104)
<b>Net Nonoperating Expenses</b>	<b>(5,690,831)</b>	<b>(1,270,766)</b>	<b>(206,783)</b>	<b>(7,168,380)</b>
Other Revenues, Expenses, Gains, and Losses	-	(750,000)	-	(750,000)
<b>(Decrease) Increase in Net Position</b>	<b>(9,616,537)</b>	<b>(749,251)</b>	<b>2,107,725</b>	<b>(8,258,063)</b>
Net Position, Beginning of Year	334,145,635	(4,995,420)	(7,793,184)	321,357,031
<b>Net Position, End of Year</b>	<b>\$ 324,529,098</b>	<b>\$ (5,744,671)</b>	<b>\$ (5,685,459)</b>	<b>\$ 313,098,968</b>

### 22. Subsequent Events

On September 26, 2016, the University entered into an installment purchase agreement for the purchase of equipment with an original cost of \$2,425,770 at an interest rate of 1.2515 percent.

## OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	\$ -	\$ 101,015,000	\$ 101,015,000	0%	\$ 280,051,835	36.1%
7/1/2013	-	120,121,000	120,121,000	0%	332,597,433	36.1%
7/1/2015	-	205,746,000	205,746,000	0%	370,763,485	55.5%

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

	2015 (1)	2014 (1)	2013 (1)
University's proportion of the FRS net pension liability	0.567528557%	0.525779099%	0.380516592%
University's proportionate share of the FRS net pension liability	\$ 73,303,925	\$ 32,080,257	\$ 65,503,841
University's covered-employee payroll (2)	\$ 355,458,891	\$ 332,597,433	\$ 305,657,917
University's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	20.62%	9.65%	21.43%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	92.00%	96.09%	88.54%

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

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, 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

	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 14,085,792	\$ 13,836,828	\$ 11,516,793
FRS contributions in relation to the contractually required contribution	(14,085,792)	(13,836,828)	(11,516,793)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -
University's covered-employee payroll (2)	\$ 370,763,486	\$ 355,458,891	\$ 332,597,433
FRS contributions as a percentage of covered-employee payroll	3.80%	3.89%	3.46%

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

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

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

	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
University's proportion of the HIS net pension liability	0.472534740%	0.449262551%	0.417849098%
University's proportionate share of the HIS net pension liability	\$ 48,191,110	\$ 42,007,145	\$ 36,379,258
University's covered-employee payroll (2)	\$ 140,089,301	\$ 130,882,051	\$ 118,388,264
University's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	34.40%	32.10%	30.73%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	0.50%	0.99%	1.78%

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

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

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

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 2,473,222	\$ 1,806,322	\$ 1,539,022
HIS contributions in relation to the contractually required HIS contribution	(2,473,222)	(1,806,322)	(1,539,022)
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -
University's covered-employee payroll (2)	\$ 147,667,524	\$ 140,089,301	\$ 130,882,051
HIS contributions as a percentage of covered-employee payroll	1.67%	1.29%	1.18%

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

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**1. Schedule of Funding Progress – Other Postemployment Benefit Plan**

The July 1, 2015, unfunded actuarial accrued liability of \$205,746,000 was significantly higher than the July 1, 2013, liability of \$120,121,000 as a result of the following: (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 –  
Health Insurance Subsidy Pension Plan**

*Change of Assumptions.* The municipal rate used to determine total pension liability decreased from 4.29 percent to 3.80 percent.



Sherrill F. Norman, CPA  
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The President of the Senate, the Speaker of the  
House of Representatives, and the  
Legislative Auditing Committee

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida International University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2016, 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 22, 2017, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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

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

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of 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 22, 2017