

**UNIVERSITY OF SOUTH FLORIDA
SARASOTA-MANATEE**

A REGIONAL INSTITUTION OF THE UNIVERSITY
OF SOUTH FLORIDA

For the Fiscal Year Ended
June 30, 2015



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2014-15 fiscal year, Dr. Judy L. Genshaft served as President of the University of South Florida. The Regional Chancellors and Board members of the University of South Florida Sarasota-Manatee, and the Board of Trustee members of the University of South Florida, who served during the 2014-15 fiscal year are listed below:

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Dr. Terry Osborn, Interim, 8-1-14
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Dr. Sandra Stone from 11-1-14

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John B. Ramil
Debbie Nye Sembler
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Dr. Gregory B. Teague from 8-11-14 ^b
Nancy H. Watkins
Jordan B. Zimmerman

Notes: ^a Student body president.

^b System faculty council president (equivalent to faculty senate chair referred to in Section 1001.71(1), Florida Statutes).

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 Rachel P. Sellers, CPA, and the audit was supervised by Karen J. Collington, CPA.

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

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of the University of South Florida Sarasota-Manatee (Regional Institution), a regional institution of the University of South Florida (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 the Regional Institution and its officers with administrative and stewardship responsibilities for Regional Institution operations had:

- Presented the Regional Institution'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 Regional Institution's basic financial statements as of and for the fiscal year ended June 30, 2015. We obtained an understanding of the Regional Institution'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 Regional Institution is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

AUDIT METHODOLOGY

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



Sherrill F. Norman, CPA
Auditor General

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 the University of South Florida Sarasota-Manatee (Regional Institution), a regional institution of the University of South Florida, a component unit of the State of Florida, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Regional Institution'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 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Regional Institution as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the financial statements of the Regional Institution have been prepared for use by the Southern Association of Colleges and Schools and are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the University of South Florida that is attributable to the transactions of the Regional Institution. They do not purport to, and do not, present fairly the financial position of the University of South Florida as of June 30, 2015, the changes in financial position or, where applicable, its cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

Other Matter

Required Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Regional Institution's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and 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 Regional Institution's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
November 23, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University of South Florida Sarasota-Manatee (Regional Institution), a regional institution of the University of South Florida, for the fiscal year ended June 30, 2015, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of the Regional Institution's management. The MD&A contains financial activity of the Regional Institution for the fiscal years ended June 30, 2015, and June 30, 2014.

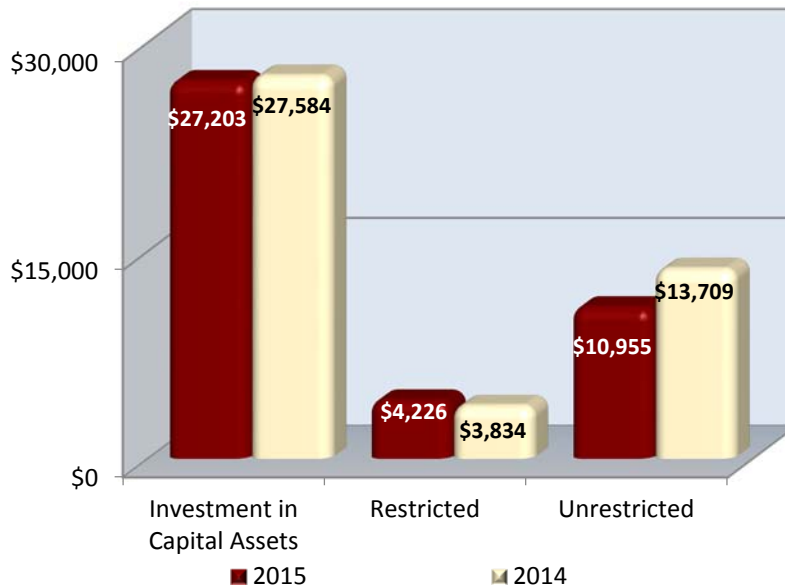
FINANCIAL HIGHLIGHTS

The Regional Institution's assets and deferred outflows of resources totaled \$51.5 million at June 30, 2015. This balance reflects a \$2.6 million, or 5.3 percent increase as compared to the 2013-14 fiscal year, resulting from increases in current investments and deferred outflows of resources. Liabilities and deferred inflows of resources increased by \$5.3 million, or 141.6 percent, totaling \$9.1 million at June 30, 2015, compared to \$3.8 million at June 30, 2014. As a result, the Regional Institution's net position decreased by \$2.7 million, resulting in a year-end balance of \$42.4 million.

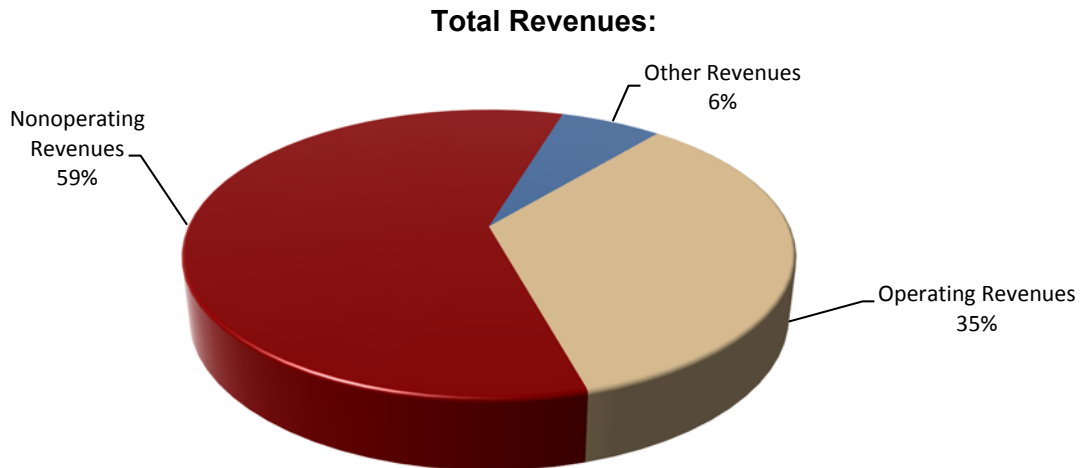
The Regional Institution's operating revenues totaled \$10.4 million for the 2014-15 fiscal year, representing a 3.3 percent increase compared to the 2013-14 fiscal year due mainly to increases in student tuition and fees. Operating expenses totaled \$28.9 million for the 2014-15 fiscal year, representing an increase of 8.2 percent as compared to the 2013-14 fiscal year due mainly to increases in compensation and employee benefits and services and supplies.

Net position represents the residual interest in the Regional Institution's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The Regional Institution's comparative total net position by category for the fiscal years ended June 30, 2015, and June 30, 2014, is shown in the following graph:

**Net Position:
(In Thousands)**



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



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the Regional Institution’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 have been prepared for use by the Southern Association of Colleges and Schools, and are intended to present the financial position and the changes in financial position and cash flows that are attributable to the transactions of the Regional Institution.

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 Regional Institution, using the accrual basis of accounting, and presents the financial position of the Regional Institution 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 Regional Institution's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the Regional Institution's financial condition.

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

Condensed Statement of Net Position at June 30

(In Thousands)

	<u>2015</u>	<u>2014</u>
Assets		
Current Assets	\$ 22,484	\$ 20,746
Capital Assets, Net	27,203	27,584
Other Noncurrent Assets	416	571
Total Assets	<u>50,103</u>	<u>48,901</u>
Deferred Outflows of Resources	<u>1,400</u>	
Liabilities		
Current Liabilities	1,095	986
Noncurrent Liabilities	6,089	2,788
Total Liabilities	<u>7,184</u>	<u>3,774</u>
Deferred Inflows of Resources	<u>1,935</u>	
Net Position		
Investment in Capital Assets	27,203	27,584
Restricted	4,226	3,834
Unrestricted	10,955	13,709
Total Net Position	<u>\$ 42,384</u>	<u>\$ 45,127</u>

Current assets increased a total of \$1.7 million primarily as a result of a \$1.5 million increase in current investments due to increases in State noncapital appropriations and student tuition and fees. In addition, amounts due from the State increased \$0.2 million, primarily due to the increase in State capital appropriations.

Deferred outflows of resources increased \$1.4 million due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*.

Total liabilities increased by \$3.4 million. Major components of this increase include an increase in pension liabilities of \$2.7 million due to the implementation of GASB Statement No. 68, and an increase in other postemployment benefits payable of \$0.5 million.

Deferred inflows of resources increased \$1.9 million due to the implementation of GABS Statement No. 68.

Net position is reported in three major categories. The first category, investment in capital assets, provides the Regional Institution's equity in property, plant, and equipment owned by the Regional Institution. Restricted net position is another category, which may be further broken down into nonexpendable and expendable. Restricted nonexpendable net position represents funds that have been donated to the Regional Institution that are required to be invested in perpetuity. This net position component is primarily maintained within the University of South Florida Foundation, Inc., a component unit of the University of South Florida. Restricted expendable net position is available for use by the Regional Institution, but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position and is available for any lawful purpose of the Regional Institution.

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

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

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

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

(In Thousands)

	2014-15	2013-14
Operating Revenues	\$ 10,376	\$ 10,048
Less, Operating Expenses	28,858	26,667
Operating Loss	(18,482)	(16,619)
Net Nonoperating Revenues	17,277	17,126
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(1,205)	507
Other Revenues, Expenses, Gains, or Losses	1,925	(586)
Net Increase (Decrease) In Net Position	720	(79)
Net Position, Beginning of Year	45,127	45,206
Adjustments to Beginning Net Position (1)	(3,463)	
Net Position, Beginning of Year, as Restated	41,664	45,206
Net Position, End of Year	\$ 42,384	\$ 45,127

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

Operating Revenues

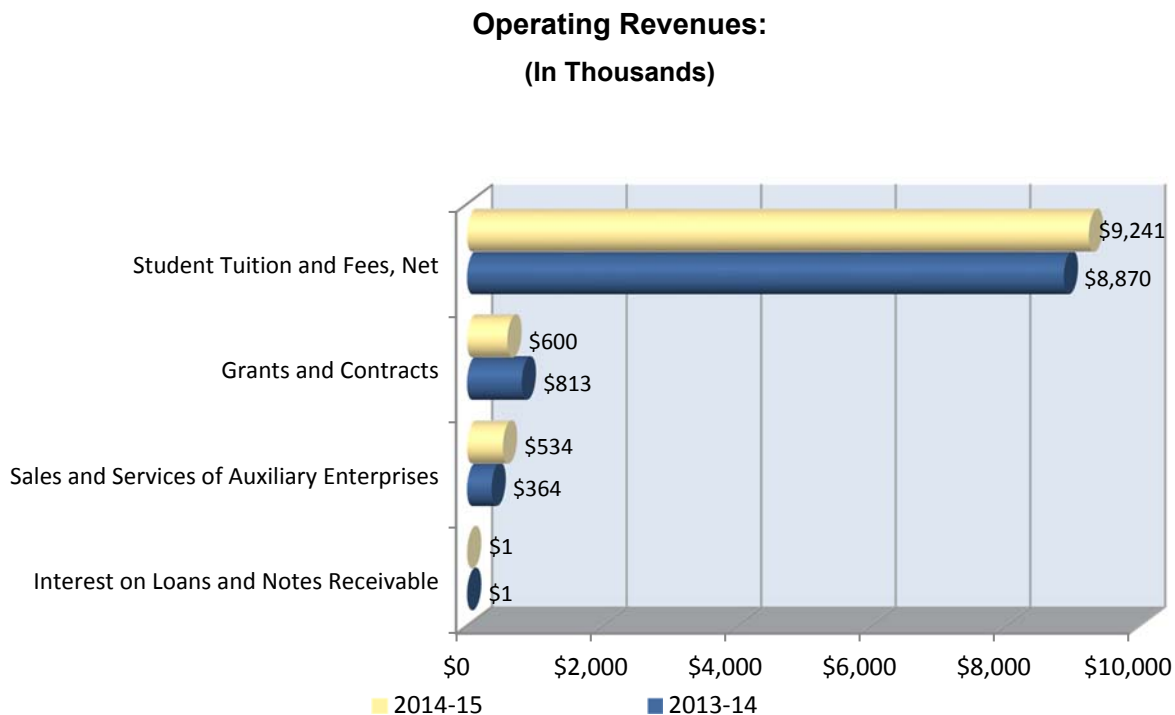
GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

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

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

	<u>2014-15</u>	<u>2013-14</u>
Student Tuition and Fees, Net	\$ 9,241	\$ 8,870
Grants and Contracts	600	813
Sales and Services of Auxiliary Enterprises	534	364
Interest on Loans and Notes Receivable	1	1
Total Operating Revenues	\$ 10,376	\$ 10,048

The following chart presents the Regional Institution’s operating revenues for the 2014-15 and 2013-14 fiscal years:



Regional Institution operating revenues increased by \$0.3 million, or 3.3 percent. Student tuition and fees increased by \$0.4 million due mainly to growth in out-of-state and graduate student enrollment.

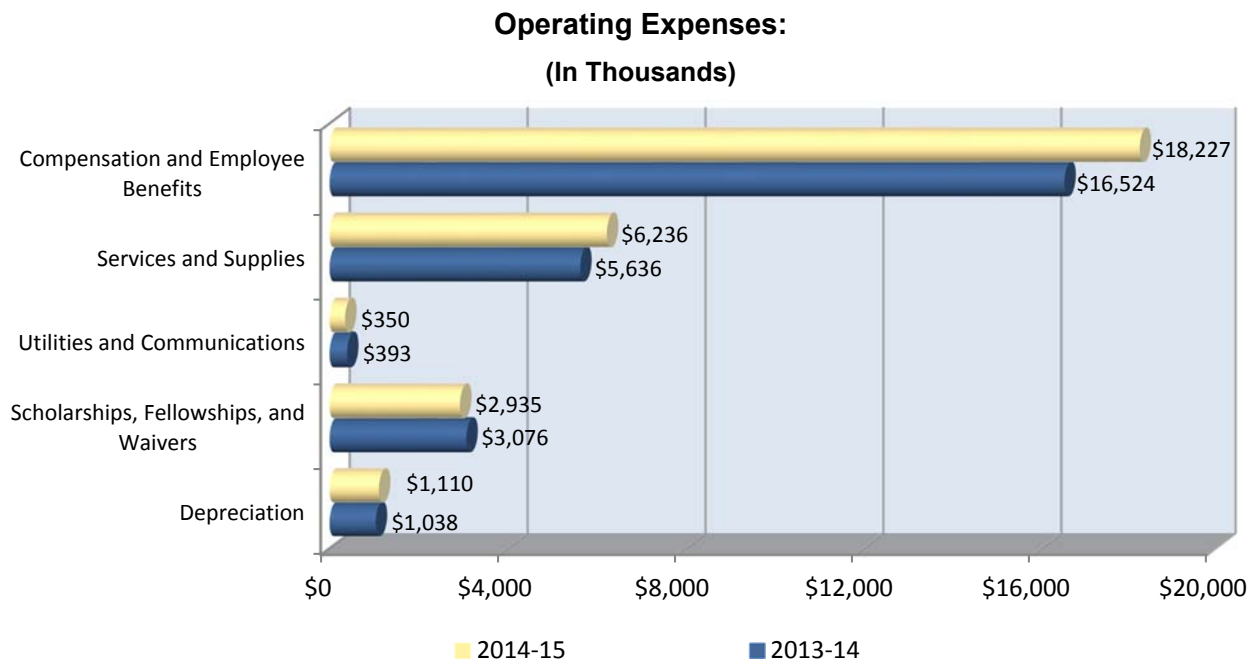
Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the Regional Institution'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 Regional Institution has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to financial statements.

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

Operating Expenses		
(In Thousands)		
	2014-15	2013-14
Compensation and Employee Benefits	\$ 18,227	\$ 16,524
Services and Supplies	6,236	5,636
Utilities and Communications	350	393
Scholarships, Fellowships, and Waivers	2,935	3,076
Depreciation	1,110	1,038
Total Operating Expenses	\$ 28,858	\$ 26,667

The following chart presents the Regional Institution's operating expenses for the 2014-15 and 2013-14 fiscal years:



Total operating expenses increased by \$2.2 million mainly attributable to increases in compensation and employee benefits (\$1.7 million) and increases in services and supplies (\$0.6 million). The increase in compensation and employee benefits was primarily due to salary and health care benefit increases, as

well as increases in the accrual for compensated absences and other postemployment benefits. The increase in services and supplies was primarily due to increases in educational and training services resulting from an educational laboratory partnership with Mote Marine Laboratory.

Nonoperating Revenues and Expenses

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

Nonoperating Revenues (Expenses):

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
State Noncapital Appropriations	\$ 14,074	\$ 13,276
Federal and State Student Financial Aid	3,496	3,520
Noncapital Grants and Donations	163	161
Investment Income (Loss)	(306)	354
Other Nonoperating Expenses	<u>(150)</u>	<u>(185)</u>
Net Nonoperating Revenues	<u>\$ 17,277</u>	<u>\$ 17,126</u>

Total net nonoperating revenues increased by \$0.2 million primarily attributed to an increase of \$0.8 million in State noncapital appropriations, partially offset by a decrease of \$0.7 million in net investment income.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of State capital appropriations and transfers to and from other University institutions. The following summarizes the Regional Institution’s other revenues, expenses, gains, or losses for the 2014-15 and 2013-14 fiscal years:

Other Revenues, Expenses, Gains, or Losses:

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
State Capital Appropriations	\$ 393	\$ 553
Capital Grants, Contracts, Donations, and Fees	180	
Transfer To/From Other University Institutions, Net	<u>1,352</u>	<u>(1,139)</u>
Total	<u>\$ 1,925</u>	<u>\$ (586)</u>

Total other revenues increased by \$2.5 million. The increase mainly relates to the increase in net transfers from other university institutions of \$2.5 million primarily due to fiscal year 2015 budget transfers for performance-based funding.

The Statement of Cash Flows

The statement of cash flows provides information about the Regional Institution's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the Regional Institution'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 Regional Institution. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

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

Condensed Statement of Cash Flows:

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
Cash Provided (Used) by:		
Operating Activities	\$ (17,130)	\$ (14,591)
Noncapital Financing Activities	18,848	15,679
Capital and Related Financing Activities	(157)	(441)
Investing Activities	<u>(1,650)</u>	<u>(1,557)</u>
Net Decrease in Cash and Cash Equivalents	(89)	(910)
Cash and Cash Equivalents, Beginning of Year	<u>1,726</u>	<u>2,636</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,637</u>	<u>\$ 1,726</u>

Major sources of operating activities included net student tuition and fees (\$9.2 million), grants and contracts (\$0.5 million), and sales and services of auxiliary enterprises (\$0.5 million). Included in the calculation of net cash used for operating activities are payments to employees (\$17.7 million), payments to suppliers (\$6.7 million), and payments to students for scholarships and fellowships (\$2.9 million). The net cash used by operating activities increased by \$2.5 million, primarily due to increases in payments to employees of \$1.9 million, increases in payments to suppliers of \$1 million, offset by increases in tuition and fees collections of \$0.4 million.

The net cash provided by noncapital financing activities consists primarily of \$14.1 million of State noncapital appropriations, \$3.5 million for Federal and State student financial aid, and \$1.2 million for operating subsidies and transfers. The net cash provided by noncapital financing activities increased by \$3.2 million, which is mainly attributable to an increase in operating subsidies and transfers of \$2.3 million and an increase in State noncapital appropriations of \$0.8 million.

Cash used by capital and related financing activities decreased by \$0.3 million primarily due to decreases in purchases or construction of capital assets of \$0.3 million.

CAPITAL ASSETS, AND CAPITAL EXPENSES AND COMMITMENTS

Capital Assets

At June 30, 2015, the Regional Institution had \$35.6 million in capital assets, less accumulated depreciation of \$8.4 million, for net capital assets of \$27.2 million. Depreciation charges for the current fiscal year totaled \$1.1 million. The following table summarizes the Regional Institution’s capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30:		
(In Thousands)		
	2015	2014
Land	\$ 510	\$ 510
Construction in Progress	444	267
Buildings	23,384	24,160
Infrastructure and Other Improvements	2,157	2,024
Furniture and Equipment	349	469
Library Resources	4	7
Works of Art and Historical Treasures	222	66
Other Capital Assets	133	81
Capital Assets, Net	\$ 27,203	\$ 27,584

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

Capital Expenses and Commitments

The Regional Institution’s major construction commitments at June 30, 2015, are as follows:

	<u>Amount</u> <u>(In Thousands)</u>
Total Committed	\$ 1,399
Completed to Date	(444)
Balance Committed	\$ 955

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The Regional Institution’s economic condition is closely tied to that of the State of Florida. The budget adopted by the Florida Legislature for the 2015-16 fiscal year provided a 4.8 percent increase over the beginning base budget for State universities and incorporated performance-based funding which positively impacts the proportional increase for the University of South Florida (USF). This translated to \$2 million in additional Education and General Funds for the Regional Institution. After two consecutive years of top tier performance ranking among peer universities, USF is positioned to continue to benefit from the Legislature and Board of Governors’ continued focus on performance-based funding.

In addition to State funding, the Regional Institution receives a large share of general revenue from other sources including tuition and fees, other auxiliary operations, and grants and contracts. This diversification mitigates the impact of individual economic factors.

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 Jennifer Condon, CPA, Assistant Vice President and Controller, University of South Florida, 4202 East Fowler Avenue ALN147, Tampa, Florida 33620-5800.

BASIC FINANCIAL STATEMENTS

University of South Florida Sarasota-Manatee
A Regional Institution of the University of South Florida
Statement of Net Position
June 30, 2015

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,611,735
Investments	19,343,485
Accounts Receivable, Net	495,850
Loans and Notes Receivable, Net	47,177
Due from State	984,519
Other Current Assets	1,279

Total Current Assets 22,484,045

Noncurrent Assets:

Restricted Cash and Cash Equivalents	25,733
Restricted Investments	309,357
Loans and Notes Receivable, Net	80,329
Depreciable Capital Assets, Net	26,182,975
Nondepreciable Capital Assets	1,020,411

Total Noncurrent Assets 27,618,805

Total Assets 50,102,850

DEFERRED OUTFLOWS OF RESOURCES

Deferred Amounts Related to Pensions 1,400,403

LIABILITIES

Current Liabilities:

Accounts Payable	287,656
Construction Contracts Payable	70,316
Salary and Wages Payable	452,102
Deposits Payable	5,964
Unearned Revenue	130,893

Long-Term Liabilities - Current Portion:

Compensated Absences Payable	94,580
Net Pension Liability	53,572

Total Current Liabilities 1,095,083

University of South Florida Sarasota-Manatee
A Regional Institution of the University of South Florida
Statement of Net Position (Continued)

June 30, 2015

LIABILITIES (Continued)

Noncurrent Liabilities:

Compensated Absences Payable	1,001,988
Federal Advance Payable	72,930
Other Postemployment Benefits Payable	2,353,386
Net Pension Liability	2,660,799

Total Noncurrent Liabilities	6,089,103
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Total Liabilities	7,184,186
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DEFERRED INFLOWS OF RESOURCES

Deferred Amounts Related to Pensions	\$ 1,935,181
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NET POSITION

Investment in Capital Assets	27,203,386
Restricted for Expendable:	
Loans	57,348
Capital Projects	1,211,320
Other	2,957,169
Unrestricted	10,954,663

TOTAL NET POSITION	\$ 42,383,886
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The accompanying notes to financial statements are an integral part of this statement.

University of South Florida Sarasota-Manatee
A Regional Institution of the University of South Florida
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

REVENUES

Operating Revenues:

Student Tuition and Fees, Net of Scholarship Allowances of \$2,259,458	\$ 9,241,450
Federal Grants and Contracts	123,158
Nongovernmental Grants and Contracts	476,651
Sales and Services of Auxiliary Enterprises	533,532
Interest on Loans and Notes Receivable	1,494
Total Operating Revenues	<u>10,376,285</u>

EXPENSES

Operating Expenses:

Compensation and Employee Benefits	18,227,037
Services and Supplies	6,236,337
Utilities and Communications	350,920
Scholarships, Fellowships, and Waivers	2,934,642
Depreciation	1,109,677
Total Operating Expenses	<u>28,858,613</u>
Operating Loss	<u>(18,482,328)</u>

NONOPERATING REVENUES (EXPENSES)

State Noncapital Appropriations	14,074,110
Federal and State Student Financial Aid	3,496,191
Noncapital Grants and Donations	162,936
Investment Loss	(305,648)
Other Nonoperating Revenues	208
Other Nonoperating Expenses	(150,684)
Net Nonoperating Revenues	<u>17,277,113</u>

Loss Before Other Revenues, Expenses, Gains, or Losses

(1,205,215)

State Capital Appropriations	393,462
Capital Grants, Contracts, Donations, and Fees	180,000
Transfers To/From Other University Institutions, Net	1,352,316

Increase in Net Position

720,563

Net Position, Beginning of Year	45,126,609
Adjustment to Beginning Net Position	(3,463,286)

41,663,323

Net Position, Beginning of Year, as Restated

\$ 42,383,886

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

University of South Florida Sarasota-Manatee
A Regional Institution of the University of South Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 9,204,106
Grants and Contracts	522,155
Sales and Services of Auxiliary Enterprises	529,244
Interest on Loans and Notes Receivable	2,017
Payments to Employees	(17,731,701)
Payments to Suppliers for Goods and Services	(6,737,565)
Payments to Students for Scholarships and Fellowships	(2,934,642)
Loans Issued to Students	(20,656)
Collections on Loans to Students	36,398
Other Operating Receipts	174
	<hr/>
Net Cash Used by Operating Activities	(17,130,470)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	14,074,110
Federal and State Student Financial Aid	3,496,191
Noncapital Grants and Donations	162,936
Federal Direct Loan Program Receipts	7,715,014
Federal Direct Loan Program Disbursements	(7,715,014)
Operating Subsidies and Transfers	1,232,118
Net Change in Funds Held for Others	811
Other Nonoperating Receipts	208
Other Nonoperating Disbursements	(118,241)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	18,848,133
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	207,126
Capital Subsidies and Transfers	(5,000)
Purchase or Construction of Capital Assets	(358,800)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(156,674)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	1,361,202
Purchase of Investments	(3,034,692)
Investment Income	23,447
	<hr/>
Net Cash Used by Investing Activities	(1,650,043)
Net Decrease in Cash and Cash Equivalents	(89,054)
Cash and Cash Equivalents, Beginning of Year	1,726,522
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Cash and Cash Equivalents, End of Year	1,637,468
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University of South Florida Sarasota-Manatee
A Regional Institution of the University of South Florida
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2015

RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (18,482,328)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	1,109,677
Changes in Assets and Liabilities:	
Receivables, Net	(135,899)
Accounts Payable	(150,308)
Salaries and Wages Payable	59,095
Deposits Payable	174
Compensated Absences Payable	100,862
Unearned Revenue	32,880
Other Postemployment Benefits Payable	549,515
Deferred Outflows of Resources Related to Pensions	(940,372)
Deferred Inflows of Resources Related to Pensions	1,935,181
Net Pension Liability	(1,208,947)
	<u>\$ (17,130,470)</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES

Unrealized losses on investments were recognized as a reduction to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows. \$ (329,095)

Donation 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. \$ 180,000

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. Effective July 1, 2001, Chapter 2001-170, Laws of Florida, designated that the Sarasota-Manatee institution of the University of South Florida be established and known as the University of South Florida Sarasota-Manatee. The Statute further stated that the University of South Florida Sarasota-Manatee was to be fiscally autonomous, operated and maintained as a separate organizational and budget entity of the University of South Florida (a component unit of the State of Florida), and should have an Institution Board and an Institution Executive Officer. Members of the Institution Board are appointed by the University of South Florida (University) Board of Trustees upon recommendation by the University President. One member of the Institution Board serves jointly on the University Board of Trustees. The University of South Florida Sarasota-Manatee (Regional Institution) has a governing board of five members (three residents of Manatee County and two residents of Sarasota County) and is a legal body with specific budget authority over the Regional Institution. Institution Board members serve 4-year staggered terms.

For financial reporting purposes, the Regional Institution is a part of the University. Accordingly, the financial statements of the Regional Institution are combined and reported in the financial statements of the University for the fiscal year ended June 30, 2015. The financial statements of the Regional Institution have been prepared for use by the Southern Association of Colleges and Schools, and are intended to present the financial position and the changes in financial position and cash flows as of and for the fiscal year ended June 30, 2015, of only that portion of the University that is attributable to the transactions of the Regional Institution.

Basis of Presentation. The Regional Institution'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 Regional Institution 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 Regional Institution has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets, deferred outflows of resources, liabilities, and deferred inflows of resources, are recognized in the

accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The Regional Institution'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 Regional Institution follows GASB standards of accounting and financial reporting.

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

The Regional Institution's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects.

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 Regional Institution'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 Regional Institution and the amount that is actually paid by the student or the third party making payment on behalf of the student. The Regional Institution applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the Regional Institution 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. Regional Institution 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 purchase or construct capital or other restricted assets, are classified as restricted.

Capital Assets. Regional Institution capital assets consist of land; construction in progress; buildings, infrastructure and other improvements; furniture and equipment; library resources; works of art and

historical treasures; and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Regional Institution has a capitalization threshold of \$5,000 for tangible personal property and \$100,000 for new buildings and other building improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 25 to 40 years, depending on construction
- Infrastructure and Other Improvements – 20 years
- Furniture and Equipment – 7 to 15 years
- Library Resources – 10 years
- Works of Art and Historical Treasures – 5 years
- Other Capital Assets – 5 to 20 years

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

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

2. Reporting Changes

The Regional Institution implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liabilities of the defined benefit pension plans. The Regional Institution participates in the FRS defined benefit pension plan and the HIS defined benefit plan administered by the Florida Department of Management Services, Division of Retirement. The effects of implementing this Statement are discussed in a subsequent note.

3. Adjustments to Beginning Net Position

The beginning net position of the Regional Institution was decreased by \$3,463,286 due to the adoption of a new GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 requires the Regional Institution to recognize its proportionate share of the net pension liabilities and related pension amounts of the cost-sharing multiple-employer FRS and HIS defined benefit plans.

4. 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 University's Board of Trustees has adopted a written investment policy providing that surplus funds of the Regional Institution shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the Regional Institution 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 University's Board of Trustees as authorized by law. Investments set aside to purchase or construct capital assets are classified as restricted.

The Regional Institution's investments at June 30, 2015, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
Mutual Funds:	
Bonds	\$ 12,200,172
Equities	3,623,659
Money Market	2,839,505
Hedge Funds	989,506
Total Regional Institution Investments	<u><u>\$ 19,652,842</u></u>

The Regional Institution's investments consisted of various bond, equity, money market mutual funds, and hedge funds. The investment policy allows investments in pooled funds which are professionally managed and registered with the Securities and Exchange Commission, fixed-income investments, and hedge funds. The following risks apply to the Regional's Institution's investments:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy limits the fixed-income portfolio (United States Treasury securities, United States Government agency obligations, mortgage-based securities, corporate debt, State, and municipal securities investments) to a weighted-average duration of less than five years. The investment policy provides for interest rate risk. The risk varies depending on the type of investment.

Credit Risk: Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The investment policy provides for credit risk. The risk varies depending on the type of investment.

The following interest rate and credit risks apply to the Regional Institution's investments in mutual funds and hedge funds at June 30, 2015:

Investment Type	Weighted Average Maturities	Credit Quality Rating		Fair Value
		Moody's	Standard & Poor's	
Bond Mutual Funds	2.94 years	Not Rated	Not Rated	\$ 12,200,172
Money Market Mutual Fund	21 Days	Aaa-mf	AAAm	2,839,505
Hedge Funds	Not Applicable	Not Rated	Not Rated	989,506
Total				<u>\$ 16,029,183</u>

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Regional Institution's investment in a single issuer. The investment policy provides that the maximum amount that may be invested in the securities of an individual issuer not backed by the full faith and credit of the United States Government shall not exceed five percent of the market value of the assets of the investment portfolio, and no single corporate bond issuer shall exceed five percent of the market value of the investment portfolio. Direct investments in securities of the United States Government, Government agencies and State of Florida Investment Pools, or Pooled Funds comprised solely of United States Government Securities are not subject to these restrictions. The Regional Institution did not have any investment that exceeded five percent of the market value of the investment portfolio at June 30, 2015.

5. 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 loans receivable. As of June 30, 2015, the Regional Institution reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Student Tuition and Fees	\$ 356,730
Contracts and Grants	128,651
Other	10,469
Total Accounts Receivable	<u>\$ 495,850</u>

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 \$328,307 and \$108,011, respectively, at June 30, 2015.

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

6. Due From State

The amount due from State consists of \$487,251 of Public Education Capital Outlay and \$497,268 of Capital Improvement Fee Trust Fund allocations due from the State to the Regional Institution for construction of Regional Institution facilities.

7. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2015, is shown in the following table:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 510,368	\$	\$	\$ 510,368
Works of Art and Historical Treasures	66,000			66,000
Construction in Progress	267,169	176,874		444,043
Total Nondepreciable Capital Assets	\$ 843,537	\$ 176,874	\$	\$ 1,020,411
Depreciable Capital Assets:				
Buildings	\$ 29,751,341	\$	\$	\$ 29,751,341
Infrastructure and Other Improvements	2,828,198	286,589		3,114,787
Furniture and Equipment	1,129,593	28,289	192,485	965,397
Library Resources	31,635			31,635
Works of Art and Historical Treasures		180,000		180,000
Other Capital Assets	409,142	97,032	11,674	494,500
Total Depreciable Capital Assets	34,149,909	591,910	204,159	34,537,660
Less, Accumulated Depreciation:				
Buildings	5,591,757	776,022		6,367,779
Infrastructure and Other Improvements	803,955	153,941		957,896
Furniture and Equipment	660,857	107,668	152,379	616,146
Library Resources	24,340	3,164		27,504
Works of Art and Historical Treasures		24,000		24,000
Other Capital Assets	328,151	44,882	11,673	361,360
Total Accumulated Depreciation	7,409,060	1,109,677	164,052	8,354,685
Total Depreciable Capital Assets, Net	\$ 26,740,849	\$ (517,767)	\$ 40,107	\$ 26,182,975

8. Unearned Revenue

Unearned revenue at June 30, 2015, consisted of \$130,893 from contracts and grants received prior to fiscal year-end related to subsequent accounting periods.

9. Long-Term Liabilities

Long-term liabilities of the Regional Institution at June 30, 2015, include compensated absences payable, Federal advance payable, other postemployment benefits payable, and net pension liability. Long-term liabilities activity for the fiscal year ended June 30, 2015, is shown in the following table:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated Absences Payable	\$ 995,706	\$ 316,160	\$ 215,298	\$ 1,096,568	\$ 94,580
Federal Advance Payable	73,825		895	72,930	
Other Postemployment Benefits Payable	1,803,871	619,515	70,000	2,353,386	
Net Pension Liability (1)	3,923,318	1,186,266	2,395,213	2,714,371	53,572
Total Long-Term Liabilities	\$ 6,796,720	\$ 2,121,941	\$ 2,681,406	\$ 6,237,255	\$ 148,152

Note: (1) The beginning balance resulted from the implementation of GASB Statement No. 68.

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The Regional Institution 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 Regional Institution expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2015, the estimated liability for compensated absences, which includes the Regional Institution's share of the Florida Retirement System and FICA contributions, totaled \$1,096,568. The current portion of the compensated absences liability, \$94,580, 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.

Federal Advance Payable. Represents the Regional Institution's liability for the Federal Capital Contribution (advance) provided to fund the Regional Institution's Federal Perkins Loan program. This amount will ultimately be returned to the Federal government should the Regional Institution cease making Federal Perkins Loans or has excess cash in the loan program.

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

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The State has not advance-funded

other postemployment benefit (OPEB) costs or the net OPEB obligation. Premiums necessary for funding the Plan each year on a pay-as-you-go basis are established by the Governor's recommended budget and the General Appropriations Act. For the 2014-15 fiscal year, ten retirees received postemployment healthcare benefits. The Regional Institution provided required contributions of \$70,000 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 \$67,691, which represents 0.5 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The Regional Institution'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 Regional Institution's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the Regional Institution's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 282,000
Amortization of Unfunded Actuarial Accrued Liability	194,000
Interest on Normal Cost and Amortization	19,000
Annual Required Contribution	495,000
Interest on Net OPEB Obligation	77,000
Adjustment to Annual Required Contribution	(66,000)
Annual OPEB Cost (Expense)	506,000
Contribution Toward the OPEB Cost	(70,000)
Increase in Net OPEB Obligation	436,000
Net OPEB Obligation, Beginning of Year	1,803,871
Actuarial Adjustment to Beginning of Year	113,515
Net OPEB Obligation, End of Year	\$ 2,353,386

The Regional Institution's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2015, and for the 2 preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012-13	\$ 478,467	20.3%	1,324,396
2013-14	517,675	18.3%	1,803,871
2014-15	506,000	13.8%	2,353,386

Funded Status and Funding Progress. As of July 1, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5,899,577, and the actuarial value of assets was \$0, resulting

in an unfunded actuarial accrued liability of \$5,899,577, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$12,786,069 for the 2014-15 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 46.1 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

10. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs

of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class (SMSC) employed by the State and faculty and specified employees in the State university system.

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

The Regional Institution's pension expense totaled \$330,293 for the 2014-15 fiscal year.

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees. The Regional Institution's eligible employees have membership in the Regular Class, which is comprised of members of the FRS who do not qualify for membership in the other classes, such as Senior Management Service or Special Risk.

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. 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. 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>Initial Enrollment and Retirement Age/Years of Service</u>	<u>% Value</u>
<i>Regular Class members initially enrolled before July 1, 2011</i>	
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
<i>Regular Class members initially enrolled on or after July 1, 2011</i>	
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

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

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2014-15 fiscal year were:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer</u> (1)
FRS, Regular	3.00	7.37
Deferred Retirement Option Program - Applicable to Members from the Above Class	0.00	12.28
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.26 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.

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

The Regional Institution's contributions to the Plan totaled \$475,489 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the Regional Institution reported a liability of \$1,118,570 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The Regional Institution's proportionate share of the net pension liability was based on the Regional Institution's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the Regional Institution's proportionate share was 0.018332794 percent, which was an increase of 0.004093414 from its proportionate share measured as of June 30, 2013.

For the year ended June 30, 2015, the Regional Institution recognized pension expense of \$217,560. In addition, the Regional Institution 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	\$	\$ 69,220
Change of assumptions	193,718	
Net difference between projected and actual earnings on pension plan investments		1,865,961
Changes in proportion and differences between Regional Institution contributions and proportionate share of contributions	592,807	
Regional Institution contributions subsequent to the measurement date	475,489	
Total	<u>\$ 1,262,014</u>	<u>\$ 1,935,181</u>

The deferred outflows of resources related to pensions totaling \$475,489, resulting from Regional Institution contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ (331,150)
2017	(331,150)
2018	(331,149)
2019	(331,149)
2020	135,341
Thereafter	40,601
Total	<u>\$ (1,148,656)</u>

Actuarial Assumptions. The total pension liability in the July 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return
Cash	1.00%	3.11%	3.10%
Intermediate-Term Bonds	18.00%	4.18%	4.05%
High Yield Bonds	3.00%	6.79%	6.25%
Broad US Equities	26.50%	8.51%	6.95%
Developed Foreign Equities	21.20%	8.66%	6.85%
Emerging Market Equities	5.30%	11.58%	7.60%
Private Equity	6.00%	11.80%	8.11%
Hedge Funds / Absolute Return	7.00%	5.81%	5.35%
Real estate (Property)	12.00%	7.11%	6.35%
Total	100.00%		
Assumed inflation - Mean		2.60%	

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 Regional Institution's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Regional Institution's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the Regional Institution'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:

	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
Regional Institution's proportionate share of the net pension liability	<u>\$ 4,784,273</u>	<u>\$ 1,118,570</u>	<u>\$ (1,930,595)</u>

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

Payables to the Pension Plan. At June 30, 2015, the Regional Institution reported a payable of \$9,366 for the outstanding amount of contributions in the pension plan required for the fiscal year ended June 30, 2015.

HIS Pension Plan

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

Benefits Provided. For the fiscal year ended June 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments are at least \$30 but not more than \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS 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, 2015, the contribution rate was 1.26 percent of payroll pursuant to section 112.363, Florida Statutes. The Regional Institution 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 Regional Institution's contributions to the HIS Plan totaled \$68,942 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the Regional Institution reported a liability of \$1,595,801 for its proportionate share of the net pension liability. The current portion of the net pension liability is the Regional Institution's proportionate share of benefit payments expected to be paid within one year, net of the Regional Institution's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2014, and the total

pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The Regional Institution's proportionate share of the net pension liability was based on the Regional Institution's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the Regional Institution's proportionate share was 0.017066948 percent, which was an increase of 0.000158683 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the Regional Institution recognized pension expense of \$112,733. In addition, the Regional Institution reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 56,785
Net difference between projected and actual earnings on HIS pension plan investments	766
Changes in proportion and differences between Regional Institution HIS contributions and proportionate share of HIS contributions	11,896
Regional Institution contributions subsequent to the measurement date	68,942
Total	\$ 138,389

The deferred outflows of resources totaling \$68,942 was related to pensions resulting from Regional Institution contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 11,269
2017	11,269
2018	11,269
2019	11,269
2020	11,078
Thereafter	13,293
Total	\$ 69,447

Actuarial Assumptions. The total pension liability in the July 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal Bond Rate	4.29 percent

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

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

Discount Rate. The discount rate used to measure the total pension liability was 4.29 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

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

	1% Decrease (3.29%)	Current Discount Rate (4.29%)	1% Increase (5.29%)
Regional Institution's proportionate share of the net pension liability	<u>\$ 1,815,095</u>	<u>\$ 1,595,801</u>	<u>\$ 1,412,754</u>

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

11. Retirement Plans – Defined Contribution Pension Plans

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. Regional Institution 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 plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. The allocation to the Investment Plan Regular Class member accounts during the 2014-15 fiscal year was at 6.30 percent of gross compensation.

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

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 Regional Institution's Investment Plan pension expense totaled \$175,399 for the fiscal year ended June 30, 2015.

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes 5.14 percent of the participant's salary to the participant's account, 2.54 percent to cover the unfunded actuarial liability of the FRS pension plan, 0.01 percent to cover administrative costs, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the Regional Institution 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 Regional Institution's contributions to the Program totaled \$529,089 and employee contributions totaled \$354,677 for the 2014-15 fiscal year.

12. Construction Commitments

The Regional Institution's major construction commitments at June 30, 2015, are as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Wellness Facilities	\$ 695,166	\$ 288,917	\$ 406,249
Maintenance/Minor Projects/Infrastructure	703,581	155,126	548,455
Total	\$ 1,398,747	\$ 444,043	\$ 954,704

13. Risk Management Programs

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

Pursuant to Section 110.123, Florida Statutes, Regional Institution 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.

14. Functional Distribution Of Operating Expenses

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

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 9,441,867
Research	70,286
Academic Support	5,818,890
Student Services	2,739,106
Institutional Support	3,882,919
Operation and Maintenance of Plant	2,069,376
Scholarships, Fellowships, and Waivers	2,934,642
Depreciation	1,109,677
Auxiliary Enterprises	790,559
Loan Operations	1,291
Total Operating Expenses	<u><u>\$ 28,858,613</u></u>

15. Current Unrestricted Funds

The Southern Association of Colleges and Schools, which establishes the accreditation requirements for institutions of higher education, requires a disclosure of the financial position of unrestricted net position, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net position. To meet this requirement, statements of net position and revenues, expenses, and changes in net position for the current unrestricted funds are presented, as follows:

Statement of Current Unrestricted Funds Net Position

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 837,956
Investments	17,178,732
Receivables, Net	331,296

TOTAL ASSETS 18,347,984

DEFERRED OUTFLOWS OF RESOURCES

Deferred Amounts Related to Pensions	<u>1,400,403</u>
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LIABILITIES

Current Liabilities:

Accounts Payable	242,116
Salary and Wages Payable	452,102
Compensated Absences Payable	94,580
Net Pension Liability	53,572

Total Current Liabilities 842,370

Noncurrent Liabilities:

Compensated Absences Payable	1,001,988
Other Postemployment Benefits Payable	2,353,386
Net Pension Liability	2,660,799

Total Noncurrent Liabilities 6,016,173

TOTAL LIABILITIES 6,858,543

DEFERRED INFLOWS OF RESOURCES

Deferred Amounts Related to Pensions	<u>1,935,181</u>
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TOTAL NET POSITION \$ 10,954,663

**Statement of Current Unrestricted Funds Revenues,
Expenses, and Changes in Net Position**

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net of Scholarship Allowances of \$2,259,458	\$ 7,614,634
Nongovernmental Grants and Contracts	902
Sales and Services of Auxiliary Enterprises	<u>533,532</u>
Total Operating Revenues	<u>8,149,068</u>

EXPENSES

Operating Expenses:	
Compensation and Employee Benefits	17,668,953
Services and Supplies	5,906,536
Utilities	350,920
Scholarships, Fellowships, and Waivers	<u>388,317</u>
Total Operating Expenses	<u>24,314,726</u>
Operating Loss	<u>(16,165,658)</u>

NONOPERATING REVENUES (EXPENSES)

State Noncapital Appropriations	14,074,110
Investment Loss	(258,868)
Other Nonoperating Revenues	208
Other Nonoperating Expenses	<u>(117,346)</u>
Net Nonoperating Revenues	<u>13,698,104</u>

Loss Before Other Revenues, Expenses

Gains, or Losses	(2,467,554)
Transfers to/from Other University Institutions, Net	<u>3,177,277</u>

Increase in Net Position

Net Position, Beginning of Year	13,708,226
Adjustment to Beginning Net Position	<u>(3,463,286)</u>
Net Position, Beginning of Year, as Restated	<u>10,244,940</u>
Net Position, End of Year	<u><u>\$ 10,954,663</u></u>

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2009	\$ -	\$ 3,926,320	\$ 3,926,320	0%	\$ 9,629,321	40.8%
7/1/2011	-	5,186,382	5,186,382	0%	10,444,322	49.7%
7/1/2013	-	5,899,577	5,899,577	0%	11,495,859	51.3%

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

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

	2014 (1)	2013 (1)
Regional Institution's proportion of the FRS net pension liability	0.018332794%	0.014239380%
Regional Institution's proportionate share of the FRS net pension liability	\$ 1,118,570	\$ 2,451,231
Regional Institution's covered-employee payroll (2)	\$ 10,804,738	\$ 10,110,665
Regional Institution's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	10.35%	24.24%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	96.09%	88.54%

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

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

**Schedule of Regional Institution Contributions –
Florida Retirement System Pension Plan**

	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required FRS contribution	\$ 475,489	\$ 401,566
FRS contributions in relation to the contractually required contribution	<u>(475,489)</u>	<u>(401,566)</u>
FRS contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
Regional Institution's covered-employee payroll (2)	\$ 11,978,956	\$ 10,804,738
FRS contributions as a percentage of covered-employee payroll	3.97%	3.72%

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 Regional Institution's Proportionate Share
of the Net Pension Liability –
Health Insurance Subsidy Pension Plan**

	<u>2014 (1)</u>	<u>2013 (1)</u>
Regional Institution's proportion of the HIS net pension liability	0.017066948%	0.016908265%
Regional Institution's proportionate share of the HIS net pension liability	\$ 1,595,801	\$ 1,472,087
Regional Institution's covered-employee payroll (2)	\$ 4,465,205	\$ 4,397,342
Regional Institution's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	35.74%	33.48%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	0.99%	1.78%

Note: (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 Regional Institution Contributions –
Health Insurance Subsidy Pension Plan**

	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 68,942	\$ 58,466
HIS contributions in relation to the contractually required HIS contribution	<u>(68,942)</u>	<u>(58,466)</u>
HIS contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
Regional Institution's covered-employee payroll (2)	\$ 5,098,735	\$ 4,465,205
HIS contributions as a percentage of covered-employee payroll	1.35%	1.31%

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

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

1. Schedule Of Funding Progress – Other Postemployment Benefit Plan

The July 1, 2013 unfunded actuarial accrued liability of \$5,899,577 was higher than the July 1, 2011 liability of \$5,186,382 primarily as a result of a lower than expected increase in retiree contribution rates, an implicit subsidy resulting from less than the full cost of coverage now being paid by participants in four HMO plans, changes in demographic data and assumptions, and certain trend assumptions.

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

Changes of assumptions. As of June 30, 2014, the inflation rate assumption was decreased from 3.00 percent to 2.60 percent, the real payroll growth assumption was decreased from 1.00 percent to 0.65 percent, and the overall payroll growth rate assumption was decreased from 4.00 percent to 3.25 percent. The long-term expected rate of return decreased from 7.75 percent to 7.65 percent.

**3. Schedule of Net Pension Liability And Schedule Of Contributions –
Health Insurance Subsidy Pension Plan**

Changes of assumptions. The municipal rate used to determine total pension liability decreased from 4.63 percent to 4.29 percent.



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

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

Report on the Financial Statements

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 University of South Florida Sarasota-Manatee (Regional Institution), a regional institution of the University of South Florida, (a component unit of the State of Florida), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Regional Institution's basic financial statements, and have issued our report thereon dated November 23, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. As discussed in Note 1 of the financial statements, the financial statements of the Regional Institution are intended to present the financial position and the changes of financial position and cash flows of the University of South Florida that are attributable to the transactions of the Regional Institution.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Regional Institution's internal control over financial reporting (internal control) to determine the 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 Regional Institution's internal control. Accordingly, we do not express an opinion on the effectiveness of the Regional Institution'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 Regional Institution'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 Regional Institution's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS** is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Regional Institution'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 Regional Institution's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
November 23, 2015