

Report No. 2017-120  
March 2017

**STATE OF FLORIDA AUDITOR GENERAL**

Financial Audit

**UNIVERSITY OF WEST FLORIDA**

For the Fiscal Year Ended  
June 30, 2016



Sherrill F. Norman, CPA  
Auditor General

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During the 2015-16 fiscal year, Dr. Judith A. Bense served as President of the University of West Florida, and the following individuals served as Members of the Board of Trustees:

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Dr. Pamela J. Dana to 1-20-16	Jayprakash S. Patel
Dr. Theodore Fox <sup>a</sup> from 8-1-15	Robert D. Sires from 3-24-16
Jake Hebert <sup>b</sup> from 4-11-16	Bentina C. Terry
Dr. Richard M. Hough <sup>a</sup> to 7-31-15	Garrett W. Walton to 3-23-16

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

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

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The team leader was Christy L. Johnson, CPA, and the supervisor was Kenneth C. Danley, CPA.

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

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**UNIVERSITY OF WEST FLORIDA**  
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# SUMMARY

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## SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of the University of West 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 University of West Florida and its officers with administrative and stewardship responsibilities for University operations had:

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

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

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the University are included in our report No. 2017-081.

## AUDIT METHODOLOGY

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



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

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



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

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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

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

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

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

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

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

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

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

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

### ***Opinions***

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

### ***Other Matter***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of University Contributions – Florida Retirement System Pension Plan**, **Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of University Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated February 22, 2017, on our consideration of the University of West Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts,

and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of West Florida's internal control over financial reporting and compliance.

Respectfully submitted,



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

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

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

### **FINANCIAL HIGHLIGHTS**

The University's assets totaled \$304.2 million at June 30, 2016. This balance reflects an \$8.3 million, or 2.8 percent, increase as compared to the 2014-15 fiscal year. This increase resulted primarily from an increase in capital assets associated with the University's fledgling football program as well as continuation of the College of Business renovation.

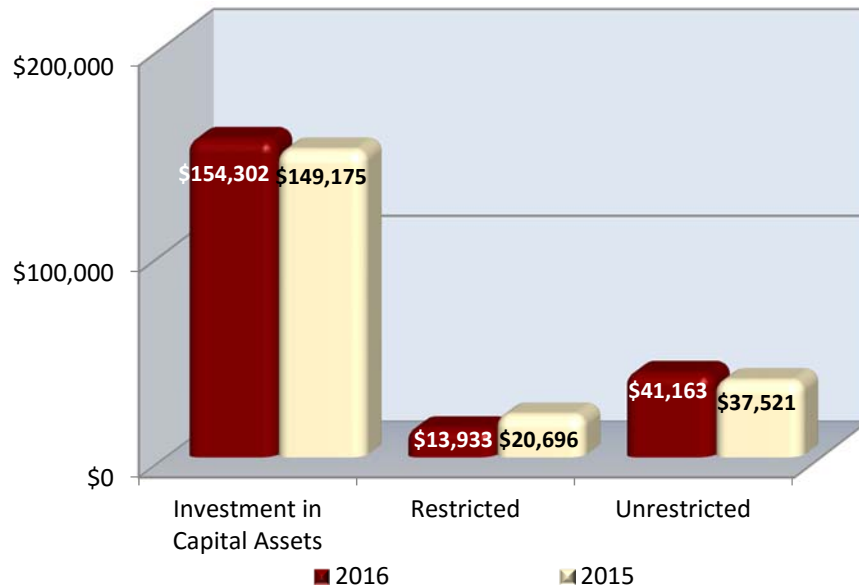
The University's liabilities increased by \$19.3 million, or 22.8 percent, totaling \$103.8 million at June 30, 2016, compared to \$84.5 million at June 30, 2015. This increase is primarily attributable to a \$4.7 million increase in other postemployment benefits payable and a \$12.1 million increase in the University's share of the Florida Retirement System's net pension liability. Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* requires the University, as a participating employer in the defined benefit pension plans administered by the Florida Division of Retirement, to recognize the University's proportionate share of the collective net pension liability. The University also recorded a decrease in deferred inflows of resources of \$8.5 million and an increase of deferred outflows of resources of \$4.6 million due to pension activity during the fiscal year.

The University's operating revenues totaled \$83.7 million for the 2015-16 fiscal year and did not significantly change from the 2014-15 fiscal year. Operating expenses totaled \$227.9 million for the 2015-16 fiscal year, representing an increase of 4.5 percent as compared to the 2014-15 fiscal year due mainly to expenses associated with the Florida Academic Library Services Cooperative and the Complete Florida Plus Program.

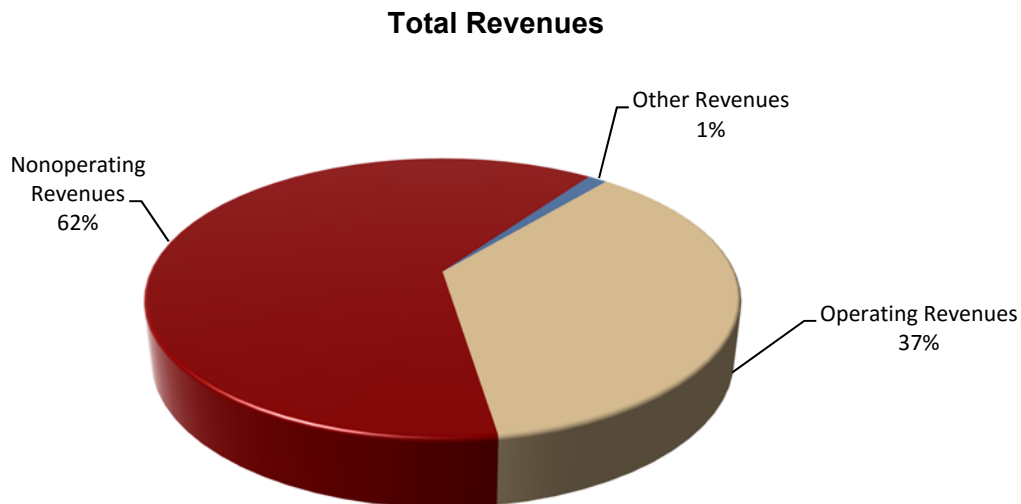
Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University's net position increased by \$2 million over the prior fiscal year, resulting in a fiscal year-end balance of \$209.4 million at June 30, 2016. The University's comparative total net position by category for the fiscal years ended June 30, 2016, and June 30, 2015, is shown in the following graph:



**Net Position  
(In Thousands)**



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



**OVERVIEW OF FINANCIAL STATEMENTS**

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

- University of West Florida Foundation, Inc.
- West Florida Historic Preservation, Inc.

- UWF Business Enterprises, Inc.

Based on the application of the criteria for determining component units, these component units are included within the University reporting entity as discretely presented component units. Information regarding these component units, including summaries of the discretely presented component units' separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the discretely presented component units. For those component units reporting under GASB standards, MD&A information is included in their separately issued audit reports. The University of West Florida Foundation, Inc. reports under Financial Accounting Board Standards and, as such, does not include an MD&A in its audit report.

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

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

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

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

(In Thousands)

	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Current Assets	\$ 143,999	\$ 141,476
Capital Assets, Net	154,302	149,175
Other Noncurrent Assets	5,855	5,215
<b>Total Assets</b>	<b>304,156</b>	<b>295,866</b>
<b>Deferred Outflows of Resources</b>	<b>13,701</b>	<b>9,146</b>
<b>Liabilities</b>		
Current Liabilities	17,213	18,544
Noncurrent Liabilities	86,615	65,993
<b>Total Liabilities</b>	<b>103,828</b>	<b>84,537</b>
<b>Deferred Inflows of Resources</b>	<b>4,631</b>	<b>13,083</b>
<b>Net Position</b>		
Investment in Capital Assets	154,302	149,175
Restricted	13,933	20,696
Unrestricted	41,163	37,521
<b>Total Net Position</b>	<b>\$ 209,398</b>	<b>\$ 207,392</b>

The increase in current assets was due in part to increased investments with the State Treasury and the State Board of Administration made possible by an increase in State noncapital appropriations related to performance funding and to increased collections on receivables. Improvement in investment performance also contributed to the increase in current assets as a significant positive adjustment to fair market value. Capital assets increased due to construction activities associated with the University's fledgling football program as well as continuation of the College of Business renovation.

An increase in accounts payable and other accrued liabilities was more than offset by a decrease in current unearned revenues associated with sponsored research projects, resulting in a reduction in current liabilities. The \$20.6 million increase in noncurrent liabilities is attributable to a \$12.1 million increase in the net pension liability recognized by the University as well as a \$4.7 million increase in the University's other postemployment benefits payable and a \$3.6 million increase in unearned revenues associated with sponsored research projects and rent revenue received in advance.

Changes in deferred inflows of resources and deferred outflows of resources are attributable to pension activity for the 2015-16 fiscal year and vary in accordance with actuarial calculations.

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

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

The following summarizes the University's activity for the 2015-16 and 2014-15 fiscal years:

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

(In Thousands)

	<b>2015-16</b>	<b>2014-15</b>
Operating Revenues	\$ 83,725	\$ 83,633
Less, Operating Expenses	227,896	218,072
<b>Operating Loss</b>	(144,171)	(134,439)
Net Nonoperating Revenues	143,293	134,460
<b>Income (Loss) Before Other Revenues</b>	(878)	21
Other Revenues	2,884	15,312
<b>Net Increase In Net Position</b>	2,006	15,333
Net Position, Beginning of Year	207,392	205,203
Adjustment to Beginning Net Position (1)	-	(13,144)
<b>Net Position, Beginning of Year, as Restated</b>	207,392	192,059
<b>Net Position, End of Year</b>	<b>\$ 209,398</b>	<b>\$ 207,392</b>

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

**Operating Revenues**

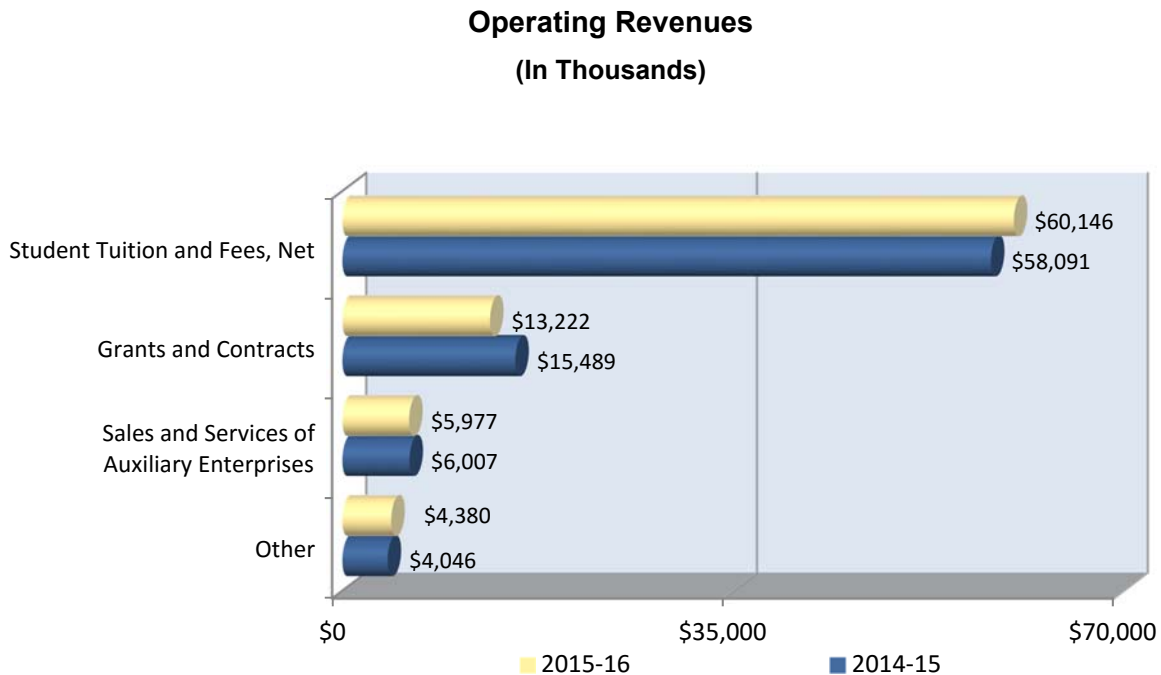
GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

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

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

	<b>2015-16</b>	<b>2014-15</b>
Student Tuition and Fees, Net	\$ 60,146	\$ 58,091
Grants and Contracts	13,222	15,489
Sales and Services of Auxiliary Enterprises	5,977	6,007
Other	4,380	4,046
<b>Total Operating Revenues</b>	<b>\$ 83,725</b>	<b>\$ 83,633</b>

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



Total operating revenues for the 2015-16 fiscal year were \$83.7 million, of which \$60.1 million was from net student tuition and fees. Tuition allowances, which represent the difference between the stated charges for goods and services provided by the University and the amount that is actually paid by a student or third party making payment on behalf of the student, totaled \$21.1 million, and are deducted from gross student tuition and fees of \$81.2 million to arrive at net student tuition and fees. Net student tuition and fees were \$60.1 million for the 2015-16 fiscal year, which represents an increase of

\$2.1 million, or 3.5 percent, from the 2014-15 fiscal year. This increase restores the University's net tuition and fees revenue to 2013-14 fiscal year levels.

Grants and contracts decreased as competition increased for limited grant funding.

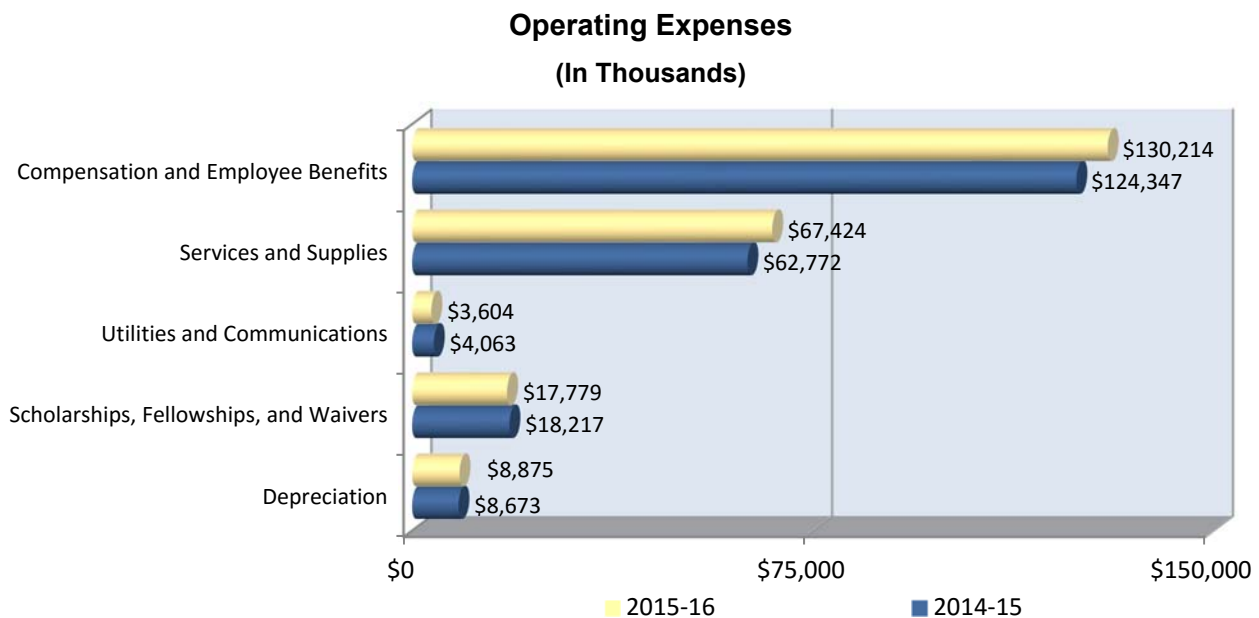
**Operating Expenses**

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

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

<b>Operating Expenses For the Fiscal Years</b>		
(In Thousands)		
	<u>2015-16</u>	<u>2014-15</u>
Compensation and Employee Benefits	\$ 130,214	\$ 124,347
Services and Supplies	67,424	62,772
Utilities and Communications	3,604	4,063
Scholarships, Fellowships, and Waivers	17,779	18,217
Depreciation	8,875	8,673
<b>Total Operating Expenses</b>	<b>\$ 227,896</b>	<b>\$ 218,072</b>

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



Compensation and employee benefits increased due to 1.9 percent faculty pay increases in January 2015 and October 2015, a 3.8 percent staff pay increase in September 2015, and the addition of approximately 75 new faculty and staff. In addition, pension expense increased from \$2.2 million for the 2014-15 fiscal year to \$3.4 million for the 2015-16 fiscal year. The \$4.7 million increase in services and supplies was primarily due to licensing and application fees associated with the Florida Academic Library Services Cooperative and the Complete Florida Plus Program.

**Nonoperating Revenues and Expenses**

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include loss on disposal of capital assets and other nonoperating expenses. The following summarizes the University's nonoperating revenues and expenses for the 2015-16 and 2014-15 fiscal years:

<b>Nonoperating Revenues (Expenses)</b>		
<b>For the Fiscal Years</b>		
<b>(In Thousands)</b>		
	<b>2015-16</b>	<b>2014-15</b>
State Noncapital Appropriations	\$ 114,222	\$ 106,711
Federal and State Student Financial Aid	22,577	23,509
Noncapital Grants, Contracts, and Gifts	3,737	3,237
Investment Income	2,761	696
Other Nonoperating Revenues	78	337
Loss on Disposal of Capital Assets	(35)	(19)
Other Nonoperating Expenses	(47)	(11)
<b>Net Nonoperating Revenues</b>	<b>\$ 143,293</b>	<b>\$ 134,460</b>

State noncapital appropriations increased in large part due to the University's award of \$5.9 million in performance funding associated with the State's performance metrics program. While gross investment income increased, the University also recognized an unrealized gain on its investments in the 2015-16 fiscal year compared to an unrealized loss on investments experienced in the 2014-15 fiscal year, which resulted in a significant increase in net investment income.

**Other Revenues**

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

<b>Other Revenues</b>		
<b>For the Fiscal Years</b>		
<b>(In Thousands)</b>		
	<b>2015-16</b>	<b>2014-15</b>
State Capital Appropriations	\$ 1,895	\$ 14,419
Capital Grants, Contracts, Donations, and Fees	989	893
<b>Total</b>	<b>\$ 2,884</b>	<b>\$ 15,312</b>

The \$12.5 million decrease in State capital appropriations resulted from a decrease in State funding for construction projects.

**The Statement of Cash Flows**

The statement of cash flows provides information about the University’s financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the University’s ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from capital and related financing activities include all plant funds 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 2015-16 and 2014-15 fiscal years:

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

	<b>2015-16</b>	<b>2014-15</b>
Cash Provided (Used) by:		
Operating Activities	\$ (126,325)	\$ (128,501)
Noncapital Financing Activities	141,359	135,528
Capital and Related Financing Activities	(5,074)	(5,467)
Investing Activities	(5,826)	(14,783)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	4,134	(13,223)
Cash and Cash Equivalents, Beginning of Year	5,189	8,838
Adjustment to Beginning Cash and Cash Equivalents (1)	-	9,574
Cash and Cash Equivalents, Beginning of Year, as Restated	5,189	18,412
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 9,323</b>	<b>\$ 5,189</b>

Note: (1) For the 2014-15 fiscal year, the adjustment to beginning cash and cash equivalents resulted from the transition of the Florida Virtual Campus to the University.

Major sources of funds came from State noncapital appropriations (\$114.2 million), proceeds from sales and maturities of investments (\$125.8 million), net student tuition and fees (\$60.5 million), Federal Direct Student Loan receipts (\$53.5 million), Federal and State student financial aid (\$22.6 million), grants and contracts (\$12.8 million), State capital appropriations (\$8.3 million), other operating receipts (\$6.2 million), and sales and services of auxiliary enterprises (\$6 million). Major uses of funds were for purchases of investments totaling \$133.3 million, payments made to and on behalf of employees totaling \$124.8 million, payments to suppliers totaling \$69.5 million, disbursements to students for Federal Direct Student Loans totaling \$53.5 million, payments to and on behalf of students for scholarships totaling \$17.8 million, and the purchase or construction of capital assets totaling \$13.3 million.

The \$2.2 million decline in cash used by operating activities is primarily attributable to an infusion of cash resulting from \$1.6 million in rent payments received in advance. A \$7.5 million increase in cash from

State appropriations was responsible for the increase in cash from noncapital financing activities and contributed to the \$4.1 million overall increase in cash and cash equivalents for the 2015-16 fiscal year.

**CAPITAL ASSETS AND CAPITAL EXPENSES AND COMMITMENTS**

**Capital Assets**

At June 30, 2016, the University had \$311.8 million in capital assets, less accumulated depreciation of \$157.5 million, for net capital assets of \$154.3 million. Depreciation charges for the current fiscal year totaled \$8.9 million. The following table summarizes the University’s capital assets, net of accumulated depreciation, at June 30:

**Capital Assets, Net at June 30**  
(In Thousands)

	2016	2015
Land	\$ 10,155	\$ 9,606
Works of Art and Historical Treasures	12,846	12,491
Construction in Progress	950	3,973
Buildings	100,351	98,216
Infrastructure and Other Improvements	18,277	13,643
Furniture and Equipment	10,585	9,446
Library Resources	1,138	1,800
<b>Capital Assets, Net</b>	<b>\$ 154,302</b>	<b>\$ 149,175</b>

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

**Capital Expenses and Commitments**

Major capital expenses during the 2015-16 fiscal year were incurred for renovations to the College of Business Education Center, Phase 3 (\$1.9 million); University Park Site Work and Infrastructure, Phase 1 (\$2 million); and the Practice Field Football/Band/Intramural project (\$1.3 million). The University did not have any significant construction commitments at June 30, 2016.

**ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

The University’s economic condition is closely tied to that of the State of Florida. Due to increasing concerns over the cost of higher education in the State of Florida, the Legislature provided for no increase in student tuition or tuition differential fees for the University for the 2015-16 fiscal year. State noncapital appropriations will decrease for the 2016-17 fiscal year as the University was not awarded the \$5.9 million received in the 2015-16 fiscal year for the University’s positive ranking on performance metrics established by the Florida Board of Governors for the Florida State University System. The University’s ability to regain this funding is dependent on future success with performance metrics, and consequently University management is aggressively pursuing a performance improvement plan that the University is confident will result in reinstatement of at risk funds.



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 Colleen M. Asmus, Associate Vice President for Finance/Controller, University of West Florida, 11000 University Parkway, Pensacola, Florida 32514.

# BASIC FINANCIAL STATEMENTS

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

June 30, 2016

	<u>University</u>	<u>Component Units</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 5,836,892	\$ 2,400,231
Investments	119,625,509	178,419
Accounts Receivable, Net	5,989,833	3,239,706
Loans and Notes Receivable, Net	28,123	62,879
Due from State	12,517,616	-
Due from University	-	2,771,381
Inventories	-	122,394
Other Current Assets	767	559,315
<b>Total Current Assets</b>	<b>143,998,740</b>	<b>9,334,325</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	3,486,281	12,009,423
Investments	-	79,001,955
Loans and Notes Receivable, Net	2,369,570	-
Depreciable Capital Assets, Net	130,350,271	57,849,993
Nondepreciable Capital Assets	23,951,614	4,252,178
Other Noncurrent Assets	-	684
<b>Total Noncurrent Assets</b>	<b>160,157,736</b>	<b>153,114,233</b>
<b>Total Assets</b>	<b>304,156,476</b>	<b>162,448,558</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Amounts Related to Pensions	13,700,974	-
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	5,444,528	566,612
Construction Contracts Payable	81,886	-
Salary and Wages Payable	4,238,633	-
Deposits Payable	859,552	42,067
Due to Component Units	2,771,381	-
Unearned Revenue	1,700,407	482,385
Other Current Liabilities	1,704	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	-	2,346,044
Loans and Notes Payable	-	40,781
Capital Lease Payable	-	4,790
Unearned Revenue	374,187	-
Compensated Absences Payable	1,258,896	-
Net Pension Liability	482,258	-
<b>Total Current Liabilities</b>	<b>17,213,432</b>	<b>3,482,679</b>

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

**June 30, 2016**

	<b>University</b>	<b>Component Units</b>
<b>LIABILITIES (Continued)</b>		
Noncurrent Liabilities:		
Bonds Payable	-	46,642,035
Loans and Notes Payable	-	917,682
Capital Lease Payable	-	4,445
Unearned Revenue	20,919,913	6,152,889
Compensated Absences Payable	12,998,690	258,247
Net Pension Liability	30,299,706	-
Other Postemployment Benefits Payable	20,941,000	-
Other Noncurrent Liabilities	1,455,266	1,795,555
<b>Total Noncurrent Liabilities</b>	<b>86,614,575</b>	<b>55,770,853</b>
<b>Total Liabilities</b>	<b>103,828,007</b>	<b>59,253,532</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Amounts Related to Pensions	4,631,146	-
<b>NET POSITION</b>		
Net Investment in Capital Assets	154,301,885	8,460,840
Restricted for Nonexpendable:		
Endowment	-	55,095,558
Restricted for Expendable:		
Loans	2,005,476	-
Capital Projects	11,421,094	-
Other	506,870	24,694,956
Unrestricted	41,162,972	14,943,672
<b>TOTAL NET POSITION</b>	<b>\$ 209,398,297</b>	<b>\$ 103,195,026</b>

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

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

	<u>University</u>	<u>Component Units</u>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$21,061,479	\$ 60,145,905	\$ -
Federal Grants and Contracts	9,833,980	-
State and Local Grants and Contracts	3,388,028	-
Sales and Services of Component Units	-	4,534,588
Gifts and Donations	-	7,200,529
Sales and Services of Auxiliary Enterprises	5,977,251	-
Interest on Loans and Notes Receivable	52,236	-
Other Operating Revenues	4,328,219	12,394,868
<b>Total Operating Revenues</b>	<b>83,725,619</b>	<b>24,129,985</b>
<b>EXPENSES</b>		
Operating Expenses:		
Compensation and Employee Benefits	130,214,577	3,179,432
Services and Supplies	67,423,926	7,877,465
Utilities and Communications	3,604,125	1,326,525
Scholarships, Fellowships, and Waivers	17,778,981	85,703
Depreciation	8,874,635	3,111,360
<b>Total Operating Expenses</b>	<b>227,896,244</b>	<b>15,580,485</b>
<b>Operating Income (Loss)</b>	<b>(144,170,625)</b>	<b>8,549,500</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Noncapital Appropriations	114,222,468	-
Federal and State Student Financial Aid	22,577,557	-
Noncapital Grants, Contracts, and Gifts	3,737,123	-
Investment Income (Loss)	2,760,664	(1,877,879)
Other Nonoperating Revenues	78,047	48,381
Gain (Loss) on Disposal of Capital Assets	(35,421)	465
Interest on Capital Asset-Related Debt	-	(2,182,724)
Other Nonoperating Expenses	(47,471)	(4,012,731)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>143,292,967</b>	<b>(8,024,488)</b>
<b>Income (Loss) Before Other Revenues</b>	<b>(877,658)</b>	<b>525,012</b>
State Capital Appropriations	1,894,565	-
Capital Grants, Contracts, Donations, and Fees	989,060	-
Additions to Permanent Endowments	-	4,846,621
<b>Increase in Net Position</b>	<b>2,005,967</b>	<b>5,371,633</b>
Net Position, Beginning of Year	207,392,330	97,823,393
<b>Net Position, End of Year</b>	<b>\$ 209,398,297</b>	<b>\$ 103,195,026</b>

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

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

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

	<b>University</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student Tuition and Fees, Net	\$ 60,471,247
Grants and Contracts	12,807,708
Sales and Services of Auxiliary Enterprises	5,977,251
Interest on Loans and Notes Receivable	45,078
Payments to Employees	(124,842,888)
Payments to Suppliers for Goods and Services	(69,539,350)
Payments to Students for Scholarships and Fellowships	(17,778,981)
Loans Issued to Students	(27,103)
Collection on Loans to Students	371,937
Other Operating Receipts	6,190,534
	<b>(126,324,567)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Noncapital Appropriations	114,222,468
Federal and State Student Financial Aid	22,577,557
Noncapital Grants, Contracts, and Gifts	3,737,123
Federal Direct Loan Program Receipts	53,524,137
Federal Direct Loan Program Disbursements	(53,524,137)
Net Change in Funds Held for Others	1,073,761
Other Nonoperating Disbursements	(252,360)
	<b>141,358,549</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
State Capital Appropriations	8,266,549
Purchase or Construction of Capital Assets	(13,340,493)
	<b>(5,073,944)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	125,822,251
Purchases of Investments	(133,306,021)
Investment Income	1,657,713
	<b>(5,826,057)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>4,133,981</b>
Cash and Cash Equivalents, Beginning of Year	5,189,192
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 9,323,173</b>

**University of West Florida**  
**A Component Unit of the State of Florida**  
**Statement of Cash Flows (Continued)**  
**For the Fiscal Year Ended June 30, 2016**

	<b>University</b>
<b>RECONCILIATION OF OPERATING LOSS</b>	
<b>TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (144,170,625)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	8,874,635
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	3,290,666
Other Assets	(32)
Accounts Payable	1,475,115
Salaries and Wages Payable	1,004,649
Deposits Payable	(85,641)
Compensated Absences Payable	554,932
Unearned Revenue	(1,080,750)
Net Pension Liability	12,128,528
Other Postemployment Benefits Payable	4,690,000
Other Liabilities	375
Deferred Outflows of Resources Related to Pensions	(4,554,305)
Deferred Inflows of Resources Related to Pensions	(8,452,114)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (126,324,567)</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES</b>	
Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 1,037,212
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (35,421)
Donations of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 989,060

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

# **NOTES TO FINANCIAL STATEMENTS**

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

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

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

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

- University of West Florida Foundation, Inc. provides funding and services to support and foster the pursuit of higher education at the University, and operates solely for the benefit of the University and its mission of teaching, research, and service. The Foundation serves as the vehicle whereby taxpayers who want to advance the cause of higher education and to pay more than their share of the cost of education may do so. The Foundation does not serve any private causes, but generally benefits the public.
- West Florida Historic Preservation, Inc. was established to engage in the restoration and exhibition of historical landmarks in the Pensacola, Florida vicinity. This organization conducts certain activities and programs that assist and promote the purposes of the University.
- UWF Business Enterprises, Inc. was established to receive, hold, develop, provide, maintain, and administer property and to make expenditures to or for the exclusive benefit of the University or



a research and development park or research and development authority of or affiliated with the University and to promote, encourage, and provide assistance to the research activities of faculty, staff, and students of the University of West Florida.

An annual audit of each organization's financial statements is conducted by independent certified public accountants. Additional information on the University's component units, including copies of audit reports, is available by contacting the University Financial Services Office at 11000 University Parkway, Pensacola, Florida 32514. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

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

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

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

The University's discretely presented component units use the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The University of West Florida Foundation, Inc. follows FASB standards of accounting and financial reporting for not-for-profit organizations. The West Florida Historic Preservation, Inc. and UWF Business Enterprises, Inc. follow 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 University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects.

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

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

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

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

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

- Buildings – 10 to 50 years

- Infrastructure and Other Improvements – 10 to 50 years
- Furniture and Equipment – 5 to 20 years
- Library Resources – 10 years
- Leasehold Improvements – 10 years or the term of the lease, whichever is greater
- Computer Software – 5 years

Capital assets of the University of West Florida Foundation, Inc. consist of land, construction in progress, office equipment and software, and property held under capital lease. 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 donations. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets. The Foundation capitalizes interest costs on borrowing incurred during the construction of qualifying assets. The capitalized interest is amortized over the life of the borrowing.

Capital assets of West Florida Historic Preservation, Inc. consist of land; construction in progress; buildings and improvements; and furniture, fixtures, and equipment, including historic properties, antiques, and collections. 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 donations. Expenditures which equal or exceed \$5,000 that materially increase values, change capacities, or extend useful lives are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is computed on a straight-line basis over 5 to 10 years for furniture, fixtures, and equipment and over 10 to 40 years for buildings and improvements. Historic properties, antiques, and collections are not depreciated.

Capital assets of UWF Business Enterprises, Inc. (BEI) consist of land, buildings, golf course improvements, parking lot, equipment, furniture and fixtures, software under capital lease, exterior signage, and construction in progress. 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 donations. 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. BEI has a capitalization threshold of \$50,000 for buildings, building improvements, infrastructure, infrastructure improvements, and leasehold improvements and a \$5,000 capitalization threshold for tangible personal property. Depreciation is calculated on the straight-line basis over 40 years for buildings, 20 years for golf course improvements and the parking lot, 5 to 10 years for equipment and software, and 7 years for furniture and fixtures and exterior signage.

**Noncurrent Liabilities.** Noncurrent liabilities include unearned revenue, compensated absences payable, net pension liability, other postemployment benefits payable, and other noncurrent 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. Investments are reported at fair value.

## 2. Reporting Changes

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

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

## 3. Investments

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees has adopted a written investment policy establishing parameters within the applicable Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open end or closed end management type investment companies; and other investments approved by the University's Board of Trustees as authorized by law.

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

All of the University's recurring fair value measurements as of June 30, 2016, are valued using quoted market prices (Level 1 inputs), with the exception of corporate bonds which are valued using a matrix pricing model (Level 2 inputs) and investments with the State Treasury which are valued based on the University's share of the pool (Level 3 inputs).

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

	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level</b>				
External Investment Pool:				
State Treasury Special Purpose Investment Account	\$ 88,389,262	\$ -	\$ -	\$ 88,389,262
Obligations of United States Government:				
Agencies and Instrumentalities	4,804,422	3,316,789	1,487,633	-
Bonds and Notes	15,463,956	-	15,463,956	-
Mutual Funds:				
Equities	4,921,843	4,921,843	-	-
Total investments by fair value level	\$113,579,483	\$ 8,238,632	\$ 16,951,589	\$ 88,389,262
<b>Investments measured at amortized cost</b>				
SBA Florida PRIME	6,046,026			
<b>Total Investments</b>	<u>\$119,625,509</u>			

### **External Investment Pools**

The University reported investments at fair value totaling \$88,389,262 at June 30, 2016, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.61 years and fair value factor of 1.0143 at June 30, 2016. Participants contribute to the Treasury Pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2016, the University reported investments totaling \$6,046,026 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The University's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 39 days as of June 30, 2016. A portfolio's WAM reflects the average maturity in days, based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at amortized cost. Section 218.409(8)(a), Florida Statutes, states that "the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any

time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days.” As of June 30, 2016, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant’s daily access to 100 percent of their account value.

**Other Investments**

The following risks apply to the University’s investments in other than external investment pools:

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Pursuant to Section 218.415(16), Florida Statutes, the University’s investments in securities must provide sufficient liquidity to pay obligations as they come due. Investments of the University in debt securities and bond and notes, and their future maturities at June 30, 2016, are as follows:

<u>Investment Type</u>	<b>University Debt Investments Maturities</b>			
	<u>Fair Value</u>	<u>Investments Maturities (In Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>More Than 5</u>
Obligations of United States Government:				
Agencies and Instrumentalities	\$ 4,804,422	\$ 399,033	\$ 3,900,785	\$ 504,604
Bonds and Notes	15,463,956	1,252,682	9,765,397	4,445,877
<b>Total Investments</b>	<b>\$ 20,268,378</b>	<b>\$ 1,651,715</b>	<b>\$ 13,666,182</b>	<b>\$ 4,950,481</b>

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the United States government or obligations explicitly guaranteed by the United States government are not considered to have credit risk and do not require disclosure of credit quality. The University’s investment policy limits fixed income exposure to investment grade assets and provides credit quality guidelines applicable to the investment objective. The following schedule represents the ratings at June 30, 2016, of the University’s debt instruments using Moody’s and Standard & Poor’s, nationally recognized rating agencies:

<u>Investment Type</u>	University Debt Investments Quality Ratings				
	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Less Than A</u>
Obligations of United States Government:					
Agencies and Instrumentalities	\$ 4,804,422	\$ 4,804,422	\$ -	\$ -	\$ -
Bonds and Notes	15,463,956	5,902,338	2,437,458	4,229,818	2,894,342
<b>Total Investments</b>	<u>\$ 20,268,378</u>	<u>\$ 10,706,760</u>	<u>\$ 2,437,458</u>	<u>\$ 4,229,818</u>	<u>\$ 2,894,342</u>

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investments in a single issuer. The University's investment policies require diversification sufficient to reduce the potential of a single security, single sector of securities, or single style of management having a disproportionate or significant impact on the portfolio. The University's policy considers credit risk on an investment type basis and established that in equities, no more than 10 percent of the portfolio should be invested in any one company.

### **Component Units' Investments**

Investments held by the University of West Florida Foundation, Inc. at June 30, 2016, are reported at fair value as follows:

Investments by Fair Value Level	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity Securities - Domestic and International:				
Consumer	\$ 2,025,683	\$ 2,025,683	\$ -	\$ -
Energy	3,365,459	3,365,459	-	-
Financials	1,962,639	1,962,639	-	-
Healthcare	540,059	540,059	-	-
Industrials	339,364	339,364	-	-
Technology	1,768,211	1,768,211	-	-
International	12,358,362	12,358,362	-	-
Other	24,026,802	24,026,802	-	-
Total Equity Securities	46,386,579	46,386,579	-	-
Debt Securities:				
Corporate Bonds and Mutual Funds	3,872,024	3,872,024	-	-
High Yield Fixed Income	1,010,121	-	1,010,121	-
United States Government Agencies	1,670,178	1,670,178	-	-
United States Government Mortgage Pool	3,650,769	3,650,769	-	-
Corporate Mortgage Pool	483,352	483,352	-	-
Total Debt Securities	10,686,444	9,676,323	1,010,121	-
Alternative Investments:				
Fund of Fund Hedge Funds:				
Directional Hedged Equity	4,388,364	-	-	4,388,364
Non-Directional Absolute Return	2,805,675	-	-	2,805,675
Equity Market Neutral	7,552,099	-	-	7,552,099
Total Fund of Fund Hedge Funds	14,746,138	-	-	14,746,138
Private Equity Investments	2,148,431	-	-	2,148,431
Real Estate Investment Trust	1,912,513	-	-	1,912,513
Total Alternative Investments	18,807,082	-	-	18,807,082
Funds Held in Trust by Others	3,121,850	-	-	3,121,850
<b>Total Investments by Fair Value Level</b>	<b>\$ 79,001,955</b>	<b>\$ 56,062,902</b>	<b>\$ 1,010,121</b>	<b>\$ 21,928,932</b>

Because the Foundation reports under the FASB reporting model, disclosure of other various investment risks may be found within the Foundation's annual published financial statements and are not reported here.

Investments held by the West Florida Historic Preservation, Inc. at June 30, 2016, consist of certificates of deposit totaling \$178,419.

#### 4. Receivables

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



<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 4,402,217
Student Tuition and Fees	2,075,413
Other	<u>175,277</u>
<b>Gross Accounts Receivable</b>	6,652,907
Less Allowances for Doubtful Accounts	<u>663,074</u>
<b>Total Accounts Receivable</b>	<u><u>\$ 5,989,833</u></u>

Allowances for doubtful accounts are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

**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. Loans and notes receivable are reported net of allowances for doubtful accounts of \$16,592.

## **5. Due From State**

The amount due from State consists of \$12,517,616 of Public Education Capital Outlay and Capital Improvement Fee Trust Fund allocations due from the State to the University for construction of University facilities.

## **6. Capital Assets**

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 9,605,539	\$ 550,000	\$ -	\$ 10,155,539
Works of Art and Historical Treasures	12,491,338	354,750	-	12,846,088
Construction in Progress	3,972,785	77,492	3,100,290	949,987
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 26,069,662</b>	<b>\$ 982,242</b>	<b>\$ 3,100,290</b>	<b>\$ 23,951,614</b>
Depreciable Capital Assets:				
Buildings	\$ 177,389,947	\$ 6,423,839	\$ -	\$ 183,813,786
Infrastructure and Other Improvements	31,344,357	5,798,186	-	37,142,543
Furniture and Equipment	33,401,971	3,930,353	1,568,040	35,764,284
Library Resources	29,741,397	2,720	638,523	29,105,594
Leasehold Improvements	59,403	-	-	59,403
Computer Software	1,961,574	-	-	1,961,574
<b>Total Depreciable Capital Assets</b>	<b>273,898,649</b>	<b>16,155,098</b>	<b>2,206,563</b>	<b>287,847,184</b>
Less, Accumulated Depreciation:				
Buildings	79,174,023	4,289,109	-	83,463,132
Infrastructure and Other Improvements	17,701,447	1,163,697	-	18,865,144
Furniture and Equipment	23,955,439	2,756,905	1,532,619	25,179,725
Library Resources	27,941,716	664,784	638,523	27,967,977
Leasehold Improvements	59,221	140	-	59,361
Computer Software	1,961,574	-	-	1,961,574
<b>Total Accumulated Depreciation</b>	<b>150,793,420</b>	<b>8,874,635</b>	<b>2,171,142</b>	<b>157,496,913</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 123,105,229</b>	<b>\$ 7,280,463</b>	<b>\$ 35,421</b>	<b>\$ 130,350,271</b>

## 7. Due To Component Units

The \$2,771,381 amount due to component units consists of amounts owed by the University to its direct-support organizations for student housing deposits and student parking services.

## 8. Deferred Outflows / Inflows of Resources

Certain changes in the University's proportionate share of the net pension liabilities of the cost-sharing multiple-employer FRS and HIS defined benefit pension plans are reported as deferred outflows and inflows of pension resources. Total deferred outflows of pension resources was \$13,700,974 and deferred inflows of pension resources was \$4,631,146 at June 30, 2016. Note 10. includes a complete discussion of defined benefit pension plans.

## 9. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2016, include unearned revenue, compensated absences payable, net pension liability, other postemployment benefits payable, and other noncurrent liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2016, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Unearned Revenue	\$ 22,317,344	\$ 4,339,410	\$ 5,362,654	\$ 21,294,100	\$ 374,187
Compensated Absences Payable	13,702,654	1,903,016	1,348,084	14,257,586	1,258,896
Net Pension Liability	18,653,436	25,906,343	13,777,815	30,781,964	482,258
Other Postemployment Benefits Payable	16,251,000	5,857,000	1,167,000	20,941,000	-
Other Noncurrent Liabilities	1,470,673	-	15,407	1,455,266	-
<b>Total Long-Term Liabilities</b>	<b>\$ 72,395,107</b>	<b>\$ 38,005,769</b>	<b>\$ 21,670,960</b>	<b>\$ 88,729,916</b>	<b>\$ 2,115,341</b>

**Unearned Revenue.** Long-term unearned revenue represents funds received but not yet earned under a grant from the State Economic Development Initiative and rents received in advance. Total long-term unearned revenue at June 30, 2016, amounted to \$21,294,100, with \$374,187 expected to be earned during the 2016-17 fiscal year.

**Compensated Absences Payable.** Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2016, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$14,257,586. The current portion of the compensated absences liability, \$1,258,896, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

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

*Plan Description.* Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer defined benefit plan (OPEB Plan). The University subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the OPEB Plan information is not included in the annual report of a public employee retirement system or another entity.

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

advance-funded other postemployment benefit (OPEB) costs or the net OPEB obligation. Premiums necessary for funding the OPEB Plan each year on a pay-as-you-go basis are established by the Governor's recommended budget and the General Appropriations Act. For the 2015-16 fiscal year, 234 retirees received postemployment healthcare benefits. The University provided required contributions of \$1,167,000 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 \$1,374,000, which represents 1.71 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 2,878,000
Amortization of Unfunded Actuarial Accrued Liability	2,706,000
Interest on Normal Cost and Amortization	<u>223,000</u>
<b>Annual Required Contribution</b>	5,807,000
Interest on Net OPEB Obligation	650,000
Adjustment to Annual Required Contribution	<u>(600,000)</u>
<b>Annual OPEB Cost (Expense)</b>	5,857,000
Contribution Toward the OPEB Cost	<u>(1,167,000)</u>
<b>Increase in Net OPEB Obligation</b>	4,690,000
Net OPEB Obligation, Beginning of Year	<u>16,251,000</u>
<b>Net OPEB Obligation, End of Year</b>	<u><u>\$ 20,941,000</u></u>

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

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013-14	\$ 3,984,000	16.3%	\$ 13,179,000
2014-15	3,636,000	15.5%	16,251,000
2015-16	5,857,000	19.9%	20,941,000

*Funded Status and Funding Progress.* As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$73,229,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$73,229,000 and a funded ratio of 0 percent. The covered

payroll (annual payroll of active participating employees) was \$80,338,474 for the 2015-16 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 91.2 percent.

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

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

The University's OPEB actuarial valuation as of July 1, 2015, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2016, and the University's 2015-16 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year and an inflation rate of 3 percent. Initial healthcare cost trend rates were 3.1 percent, 7.5 percent, and 8.8 percent for the first 3 years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 3 percent, 5.7 percent, and 7 percent for the first 3 years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates both grade down to an ultimate rate of 3.9 percent over 60 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2016, was 21 years.

## **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 (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement

programs in lieu of the FRS to certain members of the Senior Management Service Class employed by the State and faculty and specified employees in the State university system.

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

The University's FRS and HIS pension expense totaled \$3,352,837 for the fiscal year ended June 30, 2016.

### **FRS Pension Plan**

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

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

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

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

amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

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

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

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

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

<u>Class or Plan</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.26
FRS, Senior Management Service	3.00	21.43
FRS, Special Risk	3.00	22.04
Teachers Retirement System Plan E	6.25	11.50
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.88
FRS, Reemployed Retiree	(2)	(2)

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

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

The University's contributions to the Plan totaled \$3,507,844 for the fiscal year ended June 30, 2016.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2016, the University reported a liability of \$17,642,446 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The University's proportionate share of the net pension liability was based on the University's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the University's proportionate share was 0.136590124 percent, which was an increase of 0.012646833 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the University recognized pension expense of \$2,184,452. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,862,520	\$ (418,425)
Change of assumptions	1,170,988	-
Net difference between projected and actual earnings on FRS Plan investments	-	(4,212,721)
Changes in proportion and differences between University contributions and proportionate share of contributions	4,282,581	-
University FRS contributions subsequent to the measurement date	3,507,844	-
<b>Total</b>	<b>\$ 10,823,933</b>	<b>\$ (4,631,146)</b>

The deferred outflows of resources related to pensions totaling \$3,507,844, resulting from University contributions subsequent to the measurement date, will be recognized as a reduction of the net pension



liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ (696,478)
2018	(696,478)
2019	(696,478)
2020	2,779,150
2021	1,795,850
Thereafter	199,377
<b>Total</b>	<b>\$ 2,684,943</b>

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

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

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

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

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

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

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

*Discount Rate.* The discount rate used to measure the total pension liability was 7.65 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments

of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

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

	<b>1% Decrease (6.65%)</b>	<b>Current Discount Rate (7.65%)</b>	<b>1% Increase (8.65%)</b>
University's proportionate share of the net pension liability	\$ 45,715,569	\$ 17,642,446	\$ (5,719,003)

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

*Payables to the Pension Plan.* At June 30, 2016, the University reported a payable of \$418,239 for the outstanding amount of contributions to the pension plan required for the fiscal year ended June 30, 2016.

### **HIS Pension Plan**

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

*Benefits Provided.* For the fiscal year ended June 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

*Contributions.* The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2016, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The University contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The University's contributions to the HIS Plan totaled \$722,884 for the fiscal year ended June 30, 2016.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions.* At June 30, 2016, the University reported a liability of \$13,139,518 for its proportionate share of the net

pension liability. The current portion of the net pension liability is the University's proportionate share of benefit payments expected to be paid within one year, net of the University's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to the HIS Plan actuarial valuation as of July 1, 2014. The University's proportionate share of the net pension liability was based on the University's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the University's proportionate share was 0.128838678 percent, which was an increase of 0.010220674 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the University recognized pension expense of \$1,168,385. In addition, the University reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 1,033,737
Net difference between projected and actual earnings on HIS Plan investments	7,113
Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions	1,113,307
University HIS contributions subsequent to the measurement date	722,884
<b>Total</b>	<b>\$ 2,877,041</b>

The deferred outflows of resources totaling \$722,884 resulting from University contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 460,515
2018	460,515
2019	460,515
2020	459,069
2021	458,375
Thereafter	(144,832)
<b>Total</b>	<b>\$ 2,154,157</b>

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

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

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

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

*Discount Rate.* The discount rate used to measure the total pension liability was 3.8 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 4.29 percent from the prior measurement date.

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

	<b>1% Decrease (2.80%)</b>	<b>Current Discount Rate (3.80%)</b>	<b>1% Increase (4.80%)</b>
University's proportionate share of the net pension liability	\$ 14,971,870	\$ 13,139,518	\$ 11,611,613

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

*Payables to the Pension Plan.* At June 30, 2016, the University reported a payable of \$75,116 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2016.

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

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the

same employer and employee contributions, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2015-16 fiscal year were as follows:

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

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

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

The University's Investment Plan pension expense totaled \$626,851 for the fiscal year ended June 30, 2016.

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes 5.14 percent of the participant's salary to the participant's account, 2.65 percent to cover the

unfunded actuarial liability of the FRS pension plan, 0.01 percent to cover administrative costs, for a total of 7.8 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The University's contributions to the Program totaled \$2,902,573 and employee contributions totaled \$2,048,551 for the 2015-16 fiscal year.

## **12. Risk Management Programs**

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2015-16 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$54 million for named windstorm and flood through February 14, 2016, and increased to \$85 million starting February 15, 2016. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past 3 fiscal years.

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

## **13. Functional Distribution of Operating Expenses**

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as

research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net position are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 55,268,941
Research	16,462,342
Public Service	42,153,141
Academic Support	26,936,350
Student Services	12,360,029
Institutional Support	21,151,444
Operation and Maintenance of Plant	10,579,593
Scholarships, Fellowships, and Waivers	17,778,981
Depreciation	8,874,635
Auxiliary Enterprises	16,330,788
<b>Total Operating Expenses</b>	<b><u><u>\$ 227,896,244</u></u></b>

#### 14. Discretely Presented Component Units

The University has three discretely presented component units as discussed in Note 1. These component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is from the most recently available audited financial statements for the component units:

#### Condensed Statement of Net Position

	<u>Direct-Support Organizations</u>			<u>Total</u>
	<u>University of West Florida Foundation, Inc. 6-30-16</u>	<u>West Florida Historic Preservation, Inc. 6-30-16</u>	<u>UWF Business Enterprises, Inc. 6-30-16</u>	
<b>Assets:</b>				
Current Assets	\$ 4,505,880	\$ 2,073,384	\$ 2,755,061	\$ 9,334,325
Capital Assets, Net	50,699,444	4,772,318	6,630,409	62,102,171
Other Noncurrent Assets	91,011,378	684	-	91,012,062
<b>Total Assets</b>	<b><u>146,216,702</u></b>	<b><u>6,846,386</u></b>	<b><u>9,385,470</u></b>	<b><u>162,448,558</u></b>
<b>Liabilities:</b>				
Current Liabilities	2,738,594	88,889	655,196	3,482,679
Noncurrent Liabilities	48,695,837	-	7,075,016	55,770,853
<b>Total Liabilities</b>	<b><u>51,434,431</u></b>	<b><u>88,889</u></b>	<b><u>7,730,212</u></b>	<b><u>59,253,532</u></b>
<b>Net Position:</b>				
Net Investment in Capital Assets	1,706,715	4,772,318	1,981,807	8,460,840
Restricted Nonexpendable	55,095,558	-	-	55,095,558
Restricted Expendable	24,550,946	144,010	-	24,694,956
Unrestricted	13,429,052	1,841,169	(326,549)	14,943,672
<b>Total Net Position</b>	<b><u><u>\$ 94,782,271</u></u></b>	<b><u><u>\$ 6,757,497</u></u></b>	<b><u><u>\$ 1,655,258</u></u></b>	<b><u><u>\$ 103,195,026</u></u></b>

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

	Direct-Support Organizations			Total
	University of West Florida Foundation, Inc. 6-30-16	West Florida Historic Preservation, Inc. 6-30-16	UWF Business Enterprises, Inc. 6-30-16	
Operating Revenues	\$ 18,874,468	\$ 904,337	\$ 4,351,180	\$ 24,129,985
Depreciation Expense	(2,752,765)	(143,508)	(215,087)	(3,111,360)
Operating Expenses	(8,811,838)	(526,266)	(3,131,021)	(12,469,125)
<b>Operating Income</b>	<b>7,309,865</b>	<b>234,563</b>	<b>1,005,072</b>	<b>8,549,500</b>
Net Nonoperating Revenues (Expenses):				
Nonoperating Revenues	-	-	48,846	48,846
Interest Expense	(2,182,724)	-	-	(2,182,724)
Other Nonoperating Expenses	(5,013,790)	(73,002)	(803,818)	(5,890,610)
<b>Net Nonoperating Expenses</b>	<b>(7,196,514)</b>	<b>(73,002)</b>	<b>(754,972)</b>	<b>(8,024,488)</b>
Other Revenues	4,846,621	-	-	4,846,621
<b>Increase in Net Position</b>	<b>4,959,972</b>	<b>161,561</b>	<b>250,100</b>	<b>5,371,633</b>
Net Position, Beginning of Year	89,822,299	6,595,936	1,405,158	97,823,393
<b>Net Position, End of Year</b>	<b>\$ 94,782,271</b>	<b>\$ 6,757,497</b>	<b>\$ 1,655,258</b>	<b>\$ 103,195,026</b>



## OTHER REQUIRED SUPPLEMENTARY INFORMATION

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	\$ -	\$ 37,956,000	\$ 37,956,000	0%	\$ 59,114,940	64.2%
7/1/2013	-	36,847,000	36,847,000	0%	67,758,498	54.4%
7/1/2015	-	73,229,000	73,229,000	0%	80,338,474	91.2%

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

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

	2015 (1)	2014 (1)	2013 (1)
University's proportion of the FRS net pension liability	0.136590124%	0.123943291%	0.101621006%
University's proportionate share of the FRS net pension liability	\$ 17,642,446	\$ 7,562,363	\$ 17,493,498
University's covered-employee payroll (2)	\$ 72,474,365	\$ 65,432,933	\$ 80,062,817
University's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	24.34%	11.56%	21.85%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	92.00%	96.09%	88.54%

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

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

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

	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 3,507,844	\$ 3,330,183	\$ 2,714,884
FRS contributions in relation to the contractually required contribution	(3,507,844)	(3,330,183)	(2,714,884)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -
University's covered-employee payroll (2)	\$ 80,346,498	\$ 72,474,365	\$ 65,432,933
FRS contributions as a percentage of covered-employee payroll	4.37%	4.59%	4.15%

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

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

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

	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
University's proportion of the HIS net pension liability	0.128838678%	0.118618004%	0.113527947%
University's proportionate share of the HIS net pension liability	\$ 13,139,518	\$ 11,091,073	\$ 9,884,100
University's covered-employee payroll (2)	\$ 38,823,836	\$ 34,892,579	\$ 32,980,756
University's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	33.84%	31.79%	29.97%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	0.50%	0.99%	1.78%

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

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

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

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 722,884	\$ 492,502	\$ 406,345
HIS contributions in relation to the contractually required HIS contribution	(722,884)	(492,502)	(406,345)
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -
University's covered-employee payroll (2)	\$ 43,134,639	\$ 38,823,836	\$ 34,892,579
HIS contributions as a percentage of covered-employee payroll	1.68%	1.27%	1.16%

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

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

The July 1, 2015, unfunded actuarial accrued liability of \$73,229,000 was significantly higher than the July 1, 2013, liability of \$36,847,000 as a result of the following: (1) the per capita claims cost assumption increased, (2) retiree contributions were not as high as expected, (3) the healthcare trend rate assumption was revised, and (4) certain demographic assumptions were revised (retirement rates, termination rates, etc.).

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

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



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

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

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

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

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

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

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

### **Compliance and Other Matters**

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

We noted certain matters that we reported to University management in our operational audit report No. 2017-081.

### **Purpose of this Report**

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

Respectfully submitted,



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