

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

LAKE-SUMTER STATE COLLEGE

For the Fiscal Year Ended
June 30, 2015



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2014-15 fiscal year, Dr. Charles R. Mojock served as President and the following individuals served as Members of the Board of Trustees:

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Timothy Morris, Chair	Lake
Richard P. Bowersox, ^a Vice Chair	Lake
Raymond Scott Blankenship ^b	Lake
Marcia M. Butler	Sumter
Kelly L. Flores to 5-31-15 ^c	Sumter
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Emily A. Lee ^b	Lake
Kelly S. Rice ^b	Sumter
Peter F. Wahl ^a	Sumter

Notes: ^a Board member served beyond the end of term, May 31, 2015.

^b Board member served beyond the end of term, May 31, 2014, until reappointment on February 4, 2015.

^c Position remained vacant from June 1, 2015, through June 30, 2015.

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

The team leader was Christina T. Rider, CPA, and the audit was supervised by Brenda C. Racis, CPA.

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

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LAKE-SUMTER STATE COLLEGE
TABLE OF CONTENTS

	Page No.
SUMMARY	i
INDEPENDENT AUDITOR'S REPORT	1
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	13
Statement of Revenues, Expenses, and Changes in Net Position	15
Statement of Cash Flows	16
Notes to Financial Statements	18
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Other Postemployment Benefits Plan	37
Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan	37
Schedule of College Contributions – Florida Retirement System Pension Plan	38
Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan.....	38
Schedule of College Contributions – Health Insurance Subsidy Pension Plan.....	38
Notes to Required Supplementary Information	39
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	
Internal Control Over Financial Reporting	40
Compliance and Other Matters	41
Purpose of this Report	41

SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

AUDIT OBJECTIVES AND SCOPE

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

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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2015. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the College are included in our report No. 2016-048.

AUDIT METHODOLOGY

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



Sherrill F. Norman, CPA
Auditor General

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Lake-Sumter State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lake-Sumter State College and of its discretely presented component unit as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matter

Required Supplementary Information

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

financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of Lake-Sumter State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Lake-Sumter State College's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 14, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2015, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2015, and June 30, 2014, and its component unit, the Lake-Sumter State College Foundation, Inc., for the fiscal years ended December 31, 2014, and December 31, 2013.

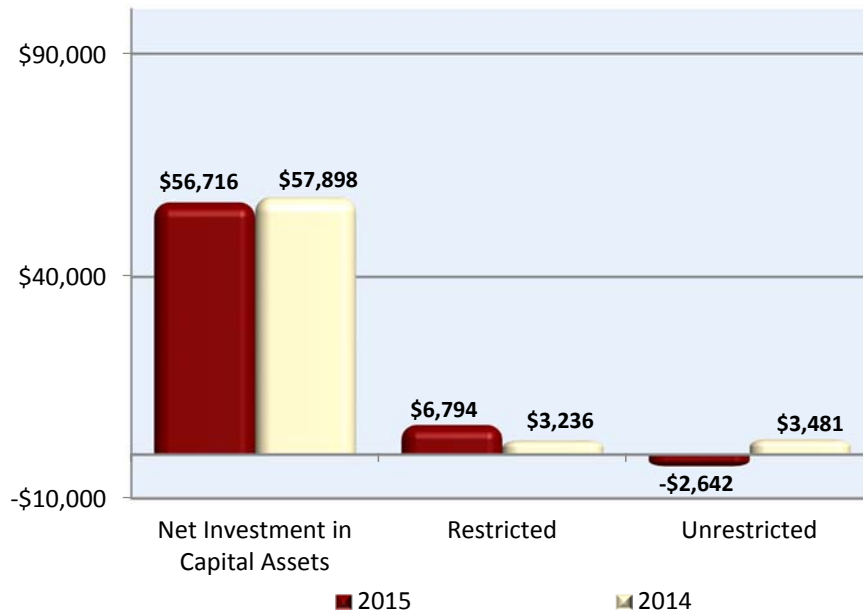
FINANCIAL HIGHLIGHTS

The College's assets totaled \$71.2 million at June 30, 2015. This balance reflects a \$2.3 million, or 3.3 percent, increase as compared to the 2013-14 fiscal year, resulting mainly from a \$3 million increase in due from other governmental agencies for the Health and Science Collegiate Academy Building, an increase in due from component unit (Foundation) for the amount of additional program support of \$0.6 million, and a decrease of depreciable assets, net in the amount of \$1.4 million. Liabilities increased by \$5.2 million, or 121.3 percent, totaling \$9.5 million at June 30, 2015, compared to \$4.3 million at June 30, 2014. Deferred outflows of resources of \$2.2 million, deferred inflows of resources of \$3 million, and a decrease to beginning net position of \$6.2 million, all related to pensions, were recorded this fiscal year under the new requirements of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. This accounting standard requires the College, as a participating employer in the Florida Retirement System (FRS), to recognize its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. Changes in liabilities are recognized through the statement of revenues, expenses, and changes in net position, or reported as deferred outflows or inflows of resources on the statement of net position, depending on the nature of the change. As a result, the College's net position decreased by \$3.7 million, resulting in a year-end balance of \$60.9 million.

The College's operating revenues totaled \$7.9 million for the 2014-15 fiscal year, representing a \$1 million or 14.2 percent increase as compared to the 2013-14 fiscal year due mainly to a modest increase in student tuition and fees of \$0.2 million, and an increase in nongovernmental grants and contracts in the amount of \$0.8 million. Operating expenses totaled \$31.1 million for the 2014-15 fiscal year, representing no material change as compared to the 2013-14 fiscal year.

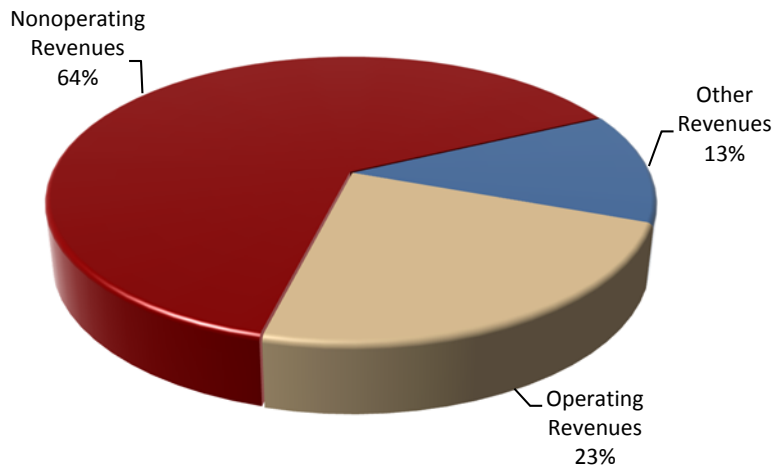
Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2015, and June 30, 2014, is shown in the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

Net Position: College
(In Thousands)



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

Total Revenues: College



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the College’s financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, provide information on the College as a whole, present a long-term view of the College’s finances, and include activities for the following entities:

- Lake-Sumter State College (Primary Institution) – Most of the programs and services generally associated with a college fall into this category, including instruction, public service, and support services.
- Lake-Sumter State College Foundation, Inc. (Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida.

The Statement of Net Position

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

A condensed statement of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the College and its component unit for the respective fiscal years ended, is shown in the following table:

Condensed Statement of Net Position at

(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	12-31-14	12-31-13
Assets				
Current Assets	\$ 11,483	\$ 8,247	\$ 10,923	\$ 9,945
Capital Assets, Net	56,865	58,098	772	764
Other Noncurrent Assets	2,855	2,568	5,228	5,153
Total Assets	71,203	68,913	16,923	15,862
Deferred Outflows of Resources	2,172	-	-	-
Liabilities				
Current Liabilities	2,743	2,509	816	85
Noncurrent Liabilities	6,767	1,789	-	810
Total Liabilities	9,510	4,298	816	895
Deferred Inflows of Resources	2,997	-	-	-
Net Position				
Net Investment in Capital Assets	56,716	57,898	213	184
Restricted	6,794	3,236	15,289	14,549
Unrestricted	(2,642)	3,481	605	234
Total Net Position	\$ 60,868	\$ 64,615	\$ 16,107	\$ 14,967

Current assets increased by \$3.2 million primarily due to the PECO receivable for the new Health and Science Collegiate Academy Building to be built on the Clermont campus. Noncurrent liabilities, deferred

outflows of resources, and deferred inflows of resources, increased due to the implementation of GASB Statement No. 68 as noted in Financial Highlights above.

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

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

The following summarizes the activities of the College and its component unit for the respective fiscal years ended:

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

(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	12-31-14	12-31-13
Operating Revenues	\$ 7,857	\$ 6,882	\$ 1,456	\$ 2,221
Less, Operating Expenses	31,120	31,097	1,510	1,929
Operating Income (Loss)	(23,263)	(24,215)	(54)	292
Net Nonoperating Revenues	21,464	21,750	1,194	1,762
Income (Loss) Before Other Revenues	(1,799)	(2,465)	1,140	2,054
Other Revenues	4,234	1,461	-	-
Net Increase (Decrease) In Net Position	2,435	(1,004)	1,140	2,054
Net Position, Beginning of Year	64,615	65,619	14,967	12,919
Adjustments to Beginning Net Position (1)	(6,182)	-	-	(6)
Net Position, Beginning of Year, as Restated	58,433	65,619	14,967	12,913
Net Position, End of Year	\$ 60,868	\$ 64,615	\$ 16,107	\$ 14,967

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

Operating Revenues

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

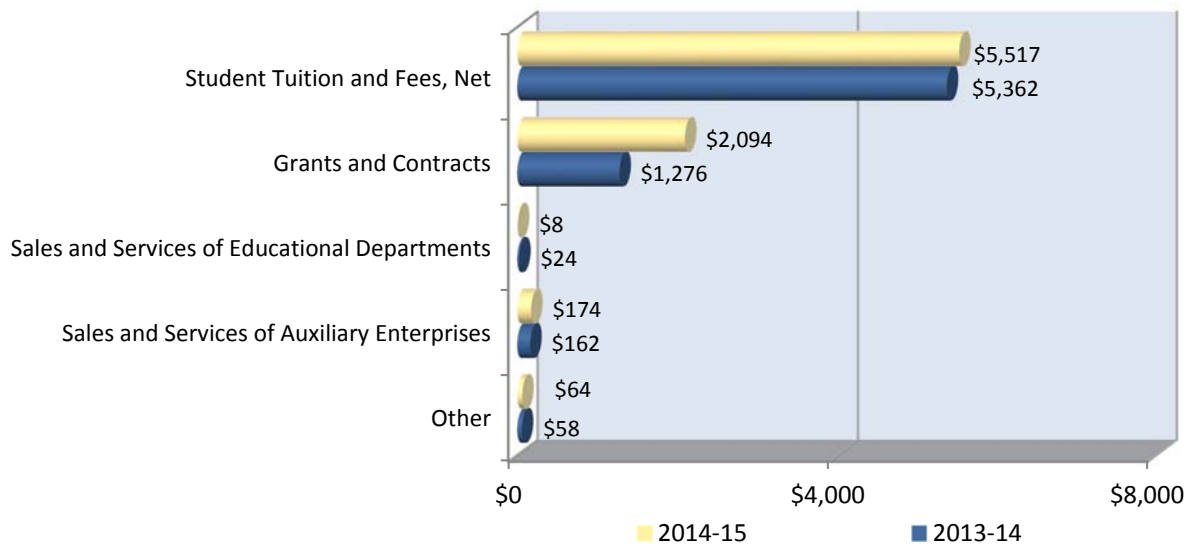
The following summarizes the operating revenues for the College and its component unit by source that were used to fund operating activities for the respective fiscal years ended:

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

	College		Component Unit	
	6-30-15	6-30-14	12-31-14	12-31-13
Student Tuition and Fees, Net	\$ 5,517	\$ 5,362	\$ -	\$ -
Grants and Contracts	2,094	1,276	-	-
Sales and Services of Educational Departments	8	24	-	-
Auxiliary Enterprises	174	162	-	-
Other	64	58	1,456	2,221
Total Operating Revenues	\$ 7,857	\$ 6,882	\$ 1,456	\$ 2,221

The following chart presents the College's operating revenues for the 2014-15 and 2013-14 fiscal years:

**Operating Revenues: College
(In Thousands)**



The College operating revenue change of \$1 million, or 14.2 percent, was the result of the following two factors:

- Student tuition and fees net of scholarship allowances increased by \$0.2 million which is a 2.9 percent increase.
- Grants and contracts increased by the amount of \$0.8 million which is a 64.1 percent increase. This increase is mainly due from additional nongovernmental grant support from the Foundation for college programs.

Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the College's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The College has

chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to financial statements.

The following summarizes operating expenses by natural classification for the College and its component unit for the respective fiscal years ended:

**Operating Expenses
For the Fiscal Years Ended**

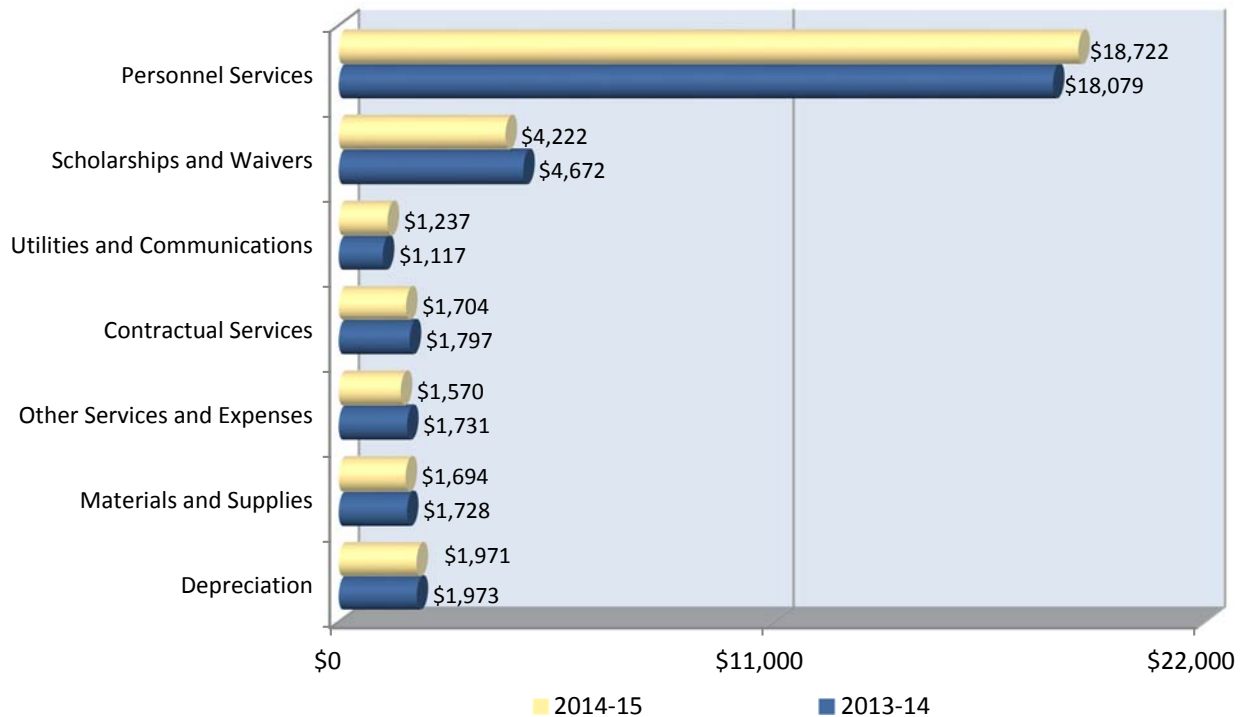
(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	12-31-14	12-31-13
Personnel Services	\$ 18,722	\$ 18,079	\$ 259	\$ 307
Scholarships and Waivers	4,222	4,672	590	1,507
Utilities and Communications	1,237	1,117	-	-
Contractual Services	1,704	1,797	13	-
Other Services and Expenses	1,570	1,731	616	106
Materials and Supplies	1,694	1,728	23	-
Depreciation	1,971	1,973	9	9
Total Operating Expenses	\$ 31,120	\$ 31,097	\$ 1,510	\$ 1,929

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

Operating Expenses: College

(In Thousands)



College operating expenses increased slightly in total from the prior year. Personnel services (including benefits) increased by \$0.6 million which represents a 3.6 percent increase. Scholarships and waivers

decreased by \$0.5 million which represents a 9.6 percent decrease, primarily due to a decrease in State student aid. Other services and expenses decreased by \$0.2 million which represents a 9.3 percent decrease, due to lower temporary staffing needs.

Nonoperating Revenues and Expenses

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

Nonoperating Revenues (Expenses): College
(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
State Noncapital Appropriations	\$ 13,386	\$ 13,612
Federal and State Student Financial Aid	6,355	6,794
Gifts and Grants	1,676	1,320
Investment Income	38	36
Other Nonoperating Revenues	15	-
Interest on Capital Asset-Related Debt	<u>(6)</u>	<u>(12)</u>
Net Nonoperating Revenues	<u><u>\$ 21,464</u></u>	<u><u>\$ 21,750</u></u>

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College’s other revenues for the 2014-15 and 2013-14 fiscal years:

Other Revenues: College
(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
State Capital Appropriations	\$ 3,253	\$ 482
Capital Grants, Contracts, Gifts, and Fees	<u>981</u>	<u>979</u>
Total	<u><u>\$ 4,234</u></u>	<u><u>\$ 1,461</u></u>

The increase of \$2.8 million in State capital appropriations was due to the special capital project funding of \$3 million the College received to construct a Science Lab Building (Health and Science Collegiate Academy Building) on the Clermont campus.

The Statement of Cash Flows

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

related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

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

Condensed Statement of Cash Flows: College

(In Thousands)

	2014-15	2013-14
Cash Provided (Used) by:		
Operating Activities	\$(22,170)	\$(22,358)
Noncapital Financing Activities	21,545	22,360
Capital and Related Financing Activities	453	1,065
Investing Activities	38	36
Net Increase (Decrease) in Cash and Cash Equivalents	(134)	1,103
Cash and Cash Equivalents, Beginning of Year	9,887	8,784
Cash and Cash Equivalents, End of Year	\$ 9,753	\$ 9,887

Major sources of funds came from State noncapital appropriations (\$13.4 million), Federal and State student financial aid (\$6.4 million), and net student tuition and fees (\$5.5 million). Major uses of funds were for payments to employees (\$18.9 million), payments to suppliers (\$5 million), and payments for scholarships (\$4.8 million).

Cash and cash equivalents did not change significantly from the prior year.

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

Capital Assets

At June 30, 2015, the College had \$87.0 million in capital assets, less accumulated depreciation of \$30.1 million, for net capital assets of \$56.9 million. Depreciation charges for the current fiscal year totaled \$2 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30: College

(In Thousands)

<u>Capital Assets</u>	2015	2014
Land	\$ 6,515	\$ 6,515
Artwork	12	12
Construction in Progress	292	91
Buildings	48,910	50,406
Other Structures and Improvements	535	637
Furniture, Machinery, and Equipment	601	437
Capital Assets, Net	\$ 56,865	\$ 58,098

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

Capital Expenses and Commitments

The College had no major construction contract commitments at June 30, 2015. State capital appropriations together with local funds are expected to finance future construction, renovations, and purchase of land and facilities.

Debt Administration

As of June 30, 2015, the College had \$148 thousand in State Board of Education (SBE) capital outlay bonds, representing a decrease of \$52 thousand, or 26 percent, from the prior fiscal year. During the 2014-15 fiscal year, the SBE issued \$129.9 million of the SBE Capital Outlay Bonds, Series 2014B. Proceeds from the College's portion of the bonds, \$148 thousand, was used to refund Series 2005B. Debt repayments during the 2014-15 fiscal year totaled \$40 thousand. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. The College has been allocated an originally unanticipated 2015-16 performance funding appropriation of \$395 thousand, or 2.94 percent of the 2014-15 fiscal year's program fund allocation, to be used for operations; and an additional \$57 thousand, an increase of 34 percent of the 2013-14 fiscal year's allocation, in Public Education Capital Outlay (PECO) maintenance funds to be used for maintenance of facilities.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Richard M. Scott, the Senior Vice President for Business Affairs, Lake-Sumter State College, 9501 US HWY 441, Leesburg, Florida 34788-8751.

BASIC FINANCIAL STATEMENTS

**Lake-Sumter State College
A Component Unit of the State of Florida
Statement of Net Position**

June 30, 2015

	<u>College</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 5,523,515	\$ 2,812,516
Restricted Cash and Cash Equivalents	1,374,707	-
Investments	-	8,093,594
Accounts Receivable, Net	317,265	-
Due from Other Governmental Agencies	3,438,379	-
Due from Component Unit	626,195	-
Inventories	42,811	-
Prepaid Expenses	160,331	16,230
Deposits	-	1,000
Total Current Assets	<u>11,483,203</u>	<u>10,923,340</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	2,854,982	-
Restricted Investments	-	5,201,055
Depreciable Capital Assets, Net	50,045,192	330,104
Nondepreciable Capital Assets	6,819,142	441,089
Other Noncurrent Assets	-	27,044
Total Noncurrent Assets	<u>59,719,316</u>	<u>5,999,292</u>
TOTAL ASSETS	<u>71,202,519</u>	<u>16,922,632</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	<u>2,172,233</u>	<u>-</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,172,233</u>	<u>-</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	375,416	36,523
Salary and Payroll Taxes Payable	1,463,479	-
Retainage Payable	6,826	-
Due to Other Governmental Agencies	80,525	-
Due to Component Unit	126	-
Unearned Revenue	173,856	-
Deposits Held for Others	111,071	221,600
Long-Term Liabilities - Current Portion:		
Bonds Payable	42,000	-
Notes Payable	-	557,734
Compensated Absences Payable	377,684	-
Net Pension Liability	112,310	-
Total Current Liabilities	<u>2,743,293</u>	<u>815,857</u>

Lake-Sumter State College
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2015

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	106,000	-
Compensated Absences Payable	1,537,914	-
Other Postemployment Benefits Payable	157,618	-
Net Pension Liability	4,965,322	-
Total Noncurrent Liabilities	6,766,854	-
TOTAL LIABILITIES	9,510,147	815,857
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	2,996,656	-
TOTAL DEFERRED INFLOWS OF RESOURCES	2,996,656	-
NET POSITION		
Net Investment in Capital Assets	56,716,334	213,459
Restricted:		
Nonexpendable:		
Endowment	-	5,201,056
Expendable:		
Endowment	-	2,300,719
Grants and Loans	271,262	-
Scholarships	46,464	6,206,057
Capital Projects	6,471,208	1,580,453
Debt Service	4,238	-
Unrestricted	(2,641,557)	605,031
TOTAL NET POSITION	\$ 60,867,949	\$ 16,106,775

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

Lake-Sumter State College
A Component Unit of the State of Florida
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$3,131,442	\$ 5,516,938	\$ -
Federal Grants and Contracts	69,266	-
State and Local Grants and Contracts	414,308	-
Nongovernmental Grants and Contracts	1,610,973	-
Sales and Services of Educational Departments	8,044	-
Auxiliary Enterprises	173,974	-
Other Operating Revenues	63,552	1,455,890
Total Operating Revenues	7,857,055	1,455,890
EXPENSES		
Operating Expenses:		
Personnel Services	18,722,467	259,119
Scholarships and Waivers	4,221,709	589,882
Utilities and Communications	1,237,049	-
Contractual Services	1,703,940	13,193
Other Services and Expenses	1,570,192	616,001
Materials and Supplies	1,693,594	23,167
Depreciation	1,971,467	8,974
Total Operating Expenses	31,120,418	1,510,336
Operating Loss	(23,263,363)	(54,446)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	13,386,405	-
Federal and State Student Financial Aid	6,354,662	-
Gifts and Grants	1,676,423	41,540
Investment Income	37,539	284,925
Net Gain on Investments	-	891,758
Other Nonoperating Revenues	15,520	-
Interest on Capital Asset-Related Debt	(6,000)	(24,297)
Net Nonoperating Revenues	21,464,549	1,193,926
Income (Loss) Before Other Revenues	(1,798,814)	1,139,480
State Capital Appropriations	3,252,874	-
Capital Grants, Contracts, Gifts, and Fees	981,144	-
Total Other Revenues	4,234,018	-
Increase in Net Position	2,435,204	1,139,480
Net Position, Beginning of Year	64,614,713	14,967,295
Adjustment to Beginning Net Position	(6,181,968)	-
Net Position, Beginning of Year, as Restated	58,432,745	14,967,295
Net Position, End of Year	\$ 60,867,949	\$ 16,106,775

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

Lake-Sumter State College
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2015

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 5,490,267
Grants and Contracts	2,033,632
Payments to Suppliers	(4,966,962)
Payments for Utilities and Communications	(1,237,049)
Payments to Employees	(14,656,077)
Payments for Employee Benefits	(4,229,670)
Payments for Scholarships	(4,795,726)
Auxiliary Enterprises	175,184
Sales and Services of Educational Departments	8,044
Other Receipts	8,659
	(22,169,698)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	13,386,405
Federal and State Student Financial Aid	6,354,662
Federal Direct Loan Program Receipts	1,243,685
Federal Direct Loan Program Disbursements	(1,209,943)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	1,754,579
Other Nonoperating Receipts	15,985
	21,545,373
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	257,596
Capital Grants and Gifts	681,144
Proceeds from Sale of Capital Assets	1,423
Purchases of Capital Assets	(441,354)
Principal Paid on Capital Debt	(40,000)
Interest Paid on Capital Debt	(6,000)
	452,809
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	37,539
	37,539
Net Decrease in Cash and Cash Equivalents	(133,977)
Cash and Cash Equivalents, Beginning of Year	9,887,181
	\$ 9,753,204

Lake-Sumter State College
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2015

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (23,263,363)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	1,971,467
Changes in Assets, Liabilities, Deferred Outflows of Resources,	
and Deferred Inflows of Resources:	
Receivables, Net	(693,370)
Inventories	1,982
Prepaid Expenses	(69,677)
Accounts Payable	24,489
Salaries and Payroll Taxes Payable	42,310
Unearned Revenue	8,456
Deposits Held for Others	4,274
Compensated Absences Payable	70,286
Other Postemployment Benefits Payable	13,361
Net Pension Liability	(1,848,737)
Deferred Outflows of Resources Related to Pensions	(1,427,832)
Deferred Inflows of Resources Related to Pensions	2,996,656
	\$ (22,169,698)

SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITIES

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.	\$ 300,000
The State Board of Education (SBE) issued \$148,000 in SBE Capital Outlay Bonds, Series 2014B, to refund \$160,000 in SBE Capital Outlay Bonds, Series 2005B. The new debt and defeasance of the old debt were recorded as an increase and a decrease, respectively, to bonds payable on the statement of net position; however, because the proceeds of the new debt were immediately placed into an irrevocable trust for the defeasance of the old debt, the transaction did not affect cash and cash equivalents.	\$ 12,000

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The governing body of Lake-Sumter State College, a component unit of the State of Florida, is the College Board of Trustees. The Board of Trustees constitutes a corporation and is composed of 9 members appointed by the Governor and confirmed by the Senate. The Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by law and State Board of Education rules. However, the Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State laws and State Board of Education rules. Geographic boundaries of the College correspond with those of Lake and Sumter Counties.

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

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the Lake-Sumter State College Foundation, Inc. (Foundation), a legally separate entity, is included within the College's reporting entity as a discretely presented component unit and is governed by a separate board.

The Foundation is also a direct-support organization, as defined in Section 1004.70, Florida Statutes, and although legally separate from the College, is financially accountable to the College. The Foundation is managed independently, outside the College's budgeting process, and its powers generally are vested in a governing board pursuant to various State statutes. The Foundation receives, holds, invests, and administers property, and makes expenditures to or for the benefit of the College.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public and can be obtained from the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 21, 2014.

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

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

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

The College's component unit uses the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follows GASB standards of accounting and financial reporting.

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

The College's principal operating activity is instruction. Operating revenues and expenses generally include all fiscal transactions directly related to instruction as well as administration, academic support, student services, physical plant operations, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, investment income, and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College calculated its scholarship allowance by identifying within the student accounts receivable system amounts paid by

student aid for tuition and fees. To the extent that these resources are used to pay student charges, the College records a scholarship allowance against student tuition and fees.

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

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash with the State Treasury Special Purpose Investment Account (SPIA), and the State Board of Administration (SBA) Florida PRIME investment pools. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less to be cash equivalents. Under this definition, the College considers amounts invested in the State Treasury SPIA and SBA Florida PRIME investment pools to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2015, the College reported as cash equivalents at fair value \$1,625,091 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.67 years and fair value factor of 1.0013 at June 30, 2015. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2015, the College reported as cash equivalents \$46,858 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 34 days as of June 30, 2015. 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 fair value, which is amortized cost.

Capital Assets. College capital assets consist of land; artwork; construction in progress; buildings; other structures and improvements; and furniture, machinery, and equipment. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible

personal property and \$25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Vehicles, Office Machines, and Educational Equipment – 5 years
 - Furniture – 7 years

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

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

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

3. Adjustment to Beginning Net Position

The beginning net position of the College, was decreased by \$6,181,968 due to the adoption of a new GASB Pronouncement, Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 requires the College to recognize its proportionate share of the net pension liabilities and related pension amounts of the cost-sharing multiple-employer FRS and HIS defined benefit plans.

4. Deficit Net Position In Individual Funds

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

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (4,663,470)
Auxiliary Funds	2,021,913
Total	\$ (2,641,557)

5. Investments

Component Unit Investments

Investments held by the Foundation at December 31, 2014, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities In Years</u>		
		<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
Investment in Debt Obligations:				
United States Government Obligations	\$ 324,529	\$ -	\$ 282,883	\$ 41,646
Federal Agency Obligations	99,208	99,208	-	-
Corporate Bonds	2,211,432	2,111,913	99,519	-
Total Investment in Debt Obligations	2,635,169	<u>\$ 2,211,121</u>	<u>\$ 382,402</u>	<u>\$ 41,646</u>
Other Investments:				
Equities	10,659,480			
Total Component Unit Investments	<u>\$ 13,294,649</u>			

The following risks apply to the Foundation's investment debt securities:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy does not limit investment maturities except with respect to cash equivalents, which must have a maximum average maturity of less than one year. The Foundation manages its exposure to fair value losses from increasing interest rates through the segmented time distribution method.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's investment policy limits its fixed income investments to an overall weighted average credit rating of "A" or better by Moody's or Standard & Poor's. No more than 15 percent of the fixed income portion of the portfolio shall be rated below investment grade (below Baa/BBB). All commercial paper investments must have a minimum rating of A1/P1 by Standard & Poor's and Moody's, respectively. Obligations of the United States Government and obligations explicitly guaranteed by the United States Government are not considered to have credit risk. At December 31, 2014, the Foundation's investments in bonds and notes had credit quality ratings by nationally-recognized rating agencies ranging from Aa2 to Aaa by Moody's and from A to AAA by Standard & Poor's.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the Foundation will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Lending of the Foundation's portfolio of securities is expressly

prohibited by the Foundation's investment policy. While the brokerage and trust accounts are in the Foundation's name, the securities are actually held in the trust department or agent's name.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Foundation's investment in a single issuer. The Foundation's investment policy limits investments in any one company to no more than 7 percent of the equity portion of its portfolio and no more than 10 percent of the fixed income portion of its portfolio, and the equity portion of the portfolio must maintain a minimum of 20 positions, with no position of any one issuer exceeding 8 percent of the manager's total portfolio. Securities issued by the United States Government or its agencies are not subject to these limitations. The policy also provides that no more than 5 percent of the portfolio may be invested in commercial paper of any one issuer, and no more than \$3 million in bank certificates of deposit of any single issuer, unless the investments are fully collateralized by United States Treasury or agency securities. The policy further limits investments in any one economic sector to no more than 25 percent for the fixed income portion of the portfolio. Additionally, no more than 10 percent of the equity portion of the portfolio may be in American Depository Receipts, and no more than 60 percent of the fixed income portion of the portfolio may be invested in either corporate or mortgage-backed securities.

6. Accounts Receivable

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$92,015 allowance for doubtful accounts.

7. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of \$3 million of Public Education Capital Outlay allocations due from the State for construction of College facilities.

8. Due From And To Component Unit/College

The \$626,195 reported as amount due from component unit consists of amounts owed to the College by the Foundation for program support, scholarships and student aid. The \$126 reported as due to component unit consists of amounts owed by the College to the Lake-Sumter State College Foundation, Inc., (Foundation) pursuant to an agreement to support the Foundation's operations.

The College's financial statements are reported for the fiscal year ended June 30, 2015. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2014. Accordingly, amounts reported by the College as due from and to component unit on the statement of net position do not agree with amounts reported by the component unit as due from and to the College.

9. Capital Assets

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 6,514,755	\$ -	\$ -	\$ 6,514,755
Artwork	12,188	-	-	12,188
Construction in Progress	90,780	347,873	146,454	292,199
Total Nondepreciable Capital Assets	\$ 6,617,723	\$ 347,873	\$ 146,454	\$ 6,819,142
Depreciable Capital Assets:				
Buildings	\$ 70,716,509	\$ 111,783	\$ -	\$ 70,828,292
Other Structures and Improvements	4,644,444	34,672	-	4,679,116
Furniture, Machinery, and Equipment	4,350,043	389,661	27,693	4,712,011
Total Depreciable Capital Assets	79,710,996	536,116	27,693	80,219,419
Less, Accumulated Depreciation:				
Buildings	20,310,368	1,607,692	-	21,918,060
Other Structures and Improvements	4,007,647	137,102	-	4,144,749
Furniture, Machinery, and Equipment	3,912,438	226,673	27,693	4,111,418
Total Accumulated Depreciation	28,230,453	1,971,467	27,693	30,174,227
Total Depreciable Capital Assets, Net	\$ 51,480,543	\$ (1,435,351)	\$ -	\$ 50,045,192

10. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2015, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 200,000	\$ 148,000	\$ 200,000	\$ 148,000	\$ 42,000
Compensated Absences Payable	1,845,312	250,128	179,842	1,915,598	377,684
Other Postemployment Benefits Payable	144,257	50,423	37,062	157,618	-
Net Pension Liability (1)	6,926,369	1,892,321	3,741,058	5,077,632	112,310
Total Long-Term Liabilities	\$ 9,115,938	\$ 2,340,872	\$ 4,157,962	\$ 7,298,848	\$ 531,994

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

Bonds Payable. The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the State Board of Administration (SBA) administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2015:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rate (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds: Series 2014B	\$ 148,000	5	2020

Annual requirements to amortize all bonded debt outstanding as of June 30, 2015, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>SBE Capital Outlay Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 42,000	\$ 7,802	\$ 49,802
2017	46,000	5,120	51,120
2018	48,000	2,820	50,820
2019	6,000	420	6,420
2020	6,000	120	6,120
Total	<u>\$ 148,000</u>	<u>\$ 16,282</u>	<u>\$ 164,282</u>

On December 2, 2014, the SBE issued \$129,880,000 of the SBE Capital Outlay Bonds, Series 2014B. The College's portion of the bonds, \$148,000, was used to call the remaining outstanding debt of the College's portion of the SBE Capital Outlay Bonds, Series 2005B totaling \$160,000. The SBE Capital Outlay Bonds Series 2005B were called on January 1, 2015. As a result of the refunding, the College had a debt service savings of \$12,000 and obtained an economic gain of \$16,468.

Component Unit - Note Payable. As of December 31, 2014, the Foundation had a note payable in the amount of \$557,734 with a 4.25 percent interest rate payable in monthly installments of \$3,870, with a balloon payment of \$532,435, due December 31, 2015, and secured by real property.

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2015, the estimated liability for compensated absences, which includes the College's share of the FRS and FICA contributions, totaled \$1,915,598. The current portion of the compensated absences liability, \$377,684, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

Other Postemployment Benefits Payable. The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for other postemployment benefits provided by the Florida College System Risk Management Consortium (Consortium).

Plan Description. The College contributes to an agent, multiple-employer defined benefit plan (Plan) administered by the Consortium. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life

insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees, because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report and the Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees has established and can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2014-15 fiscal year, 19 retirees received postemployment healthcare benefits and 6 received life insurance benefits. The College provided required contributions of \$37,062 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 \$166,394, which represents 1.33 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 33,264
Amortization of Unfunded Actuarial Accrued Liability	<u>16,198</u>
Annual Required Contribution	49,462
Interest on Net OPEB Obligation	5,770
Adjustment to Annual Required Contribution	<u>(4,809)</u>
Annual OPEB Cost (Expense)	50,423
Contribution Toward the OPEB Cost	<u>(37,062)</u>
Increase in Net OPEB Obligation	13,361
Net OPEB Obligation, Beginning of Year	<u>144,257</u>
Net OPEB Obligation, End of Year	<u><u>\$ 157,618</u></u>

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

<u>Fiscal Year</u>	Percentage of		Net OPEB
	Annual	Annual	
	OPEB Cost	Contributed	Obligation
2012-13	\$ 47,000	49.5%	\$ 131,771
2013-14	48,552	74.3%	144,257
2014-15	50,423	73.5%	157,618

Funded Status and Funding Progress. As of July 1, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$470,629, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$470,629, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$12,554,815 for the 2014-15 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3.75 percent.

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

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

The College's OPEB actuarial valuation as of July 1, 2013, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2015, and the College's 2014-15 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year, an inflation rate of 3 percent per year, and an annual healthcare cost trend rate of 8.5 percent pre-Medicare and 6.25 percent Medicare for the 2014-15 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 5 years pre-Medicare and 4 years Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2015, was 22 years.

11. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class (SMSC) employed by the State and faculty and specified employees of State colleges.

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

The College's FRS and HIS pension expense totaled \$563,765 for the 2014-15 fiscal year.

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees. The 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.

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

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

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following 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>
Regular Class members initially enrolled before July 1, 2011	
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
Regular Class members initially enrolled on or after July 1, 2011	
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
Senior Management Service Class	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 2014-15 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.37
FRS, Senior Management Service	3.00	21.14
Deferred Retirement Option Program - Applicable to Members from Both of the Above Classes	0.00	12.28
FRS, Reemployed Retiree	(2)	(2)

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

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

The College's contributions to the plan totaled \$702,580 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the College reported a liability of \$1,732,122 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The College's proportionate share of the net pension liability was based on the College's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the College's proportionate share was 0.028388597 percent, which was an increase of 0.005374297 percent from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the College recognized pension expense of \$310,543. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 107,189
Change of assumptions	299,975	-
Net difference between projected and actual earnings on FRS pension plan investments	-	2,889,467
Changes in proportion and differences between College FRS contributions and proportionate share of FRS contributions	778,306	-
College FRS contributions subsequent to the measurement date	702,580	-
Total	\$ 1,780,861	\$ 2,996,656

The deferred outflows of resources related to pensions totaling \$702,580 resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ (539,142)
2017	(539,142)
2018	(539,142)
2019	(539,142)
2020	183,225
Thereafter	54,968
Total	\$ (1,918,375)

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

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

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

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

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

<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	1.00%	3.11%	3.10%	1.65%
Intermediate-Term Bonds	18.00%	4.18%	4.05%	5.15%
High Yield Bonds	3.00%	6.79%	6.25%	10.95%
Broad US Equities	26.50%	8.51%	6.95%	18.90%
Developed Foreign Equities	21.20%	8.66%	6.85%	20.40%
Emerging Market Equities	5.30%	11.58%	7.60%	31.15%
Private Equity	6.00%	11.80%	8.11%	30.00%
Hedge Funds / Absolute Return	7.00%	5.81%	5.35%	10.00%
Real Estate (Property)	12.00%	7.11%	6.35%	13.00%
Total	100.00%			
Assumed inflation - Mean		2.60%		2.00%

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

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
College's proportionate share of the net pension liability	<u>\$7,408,515</u>	<u>\$ 1,732,122</u>	<u>\$(2,989,554)</u>

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

HIS Pension Plan

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

Benefits Provided. For the fiscal year ended June 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments are at least \$30 but not more than \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2015, the contribution rate was 1.26 percent of payroll pursuant to section 112.363, Florida Statutes. The College contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The College's contributions to the HIS Plan totaled \$141,098 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the College reported a liability of \$3,345,510 for its

proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within one year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The College's proportionate share of the net pension liability was based on the College's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the College's proportionate share was 0.035779918 percent, which was an increase of 0.001728952 percent from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the College recognized pension expense of \$253,222. In addition, the College reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 119,047
Net difference between projected and actual earnings on HIS pension plan investments	1,606
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	129,621
College contributions subsequent to the measurement date	141,098
Total	\$ 391,372

The deferred outflows of resources totaling \$141,098 was related to pensions resulting from College contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 40,509
2017	40,509
2018	40,509
2019	40,509
2020	40,108
Thereafter	48,130
Total	\$ 250,274

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

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

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

While an experience study has not been completed for the HIS Plan, the Florida Retirement System Actuarial Assumptions Conference reviewed the actuarial assumptions for the HIS Plan.

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

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

	1% Decrease (3.29%)	Current Discount Rate (4.29%)	1% Increase (5.29%)
College's proportionate share of the net pension liability	<u>\$ 3,805,246</u>	<u>\$ 3,345,510</u>	<u>\$ 2,961,761</u>

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

12. Retirement Plans – Defined Contribution Pension Plans

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

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

are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the Investment Plan member accounts during the 2014-15 fiscal year were as follows:

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

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

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

The College's Investment Plan pension expense totaled \$235,150 for the fiscal year ended June 30, 2015.

State College System Optional Retirement Program. Section 1012.875, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible college instructors and administrators. The Program is designed to aid colleges in recruiting employees by offering more portability to employees not expected to remain in the FRS for 8 or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes 5.14 percent of the participant's salary to the participant's account, 2.54 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover the administrative costs, for a total of 7.69 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed

by the College to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The College's contributions to the Program totaled \$85,853 and employee contributions totaled \$50,012 for the 2014-15 fiscal year.

13. Risk Management Programs

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums) and purchases excess insurance through commercial companies for claims in excess of specified amounts. Excess insurance from commercial companies provided coverage of up to \$150 million to February 28, 2015, and up to \$200 million from March 1, 2015, for property insurance. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 fiscal years.

14. Functional Distribution of Operating Expenses

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 8,423,710
Public Services	138,643
Academic Support	3,776,348
Student Services	3,489,467
Institutional Support	5,374,404
Operation and Maintenance of Plant	3,742,353
Scholarships and Waivers	4,151,524
Depreciation	1,971,467
Auxiliary Enterprises	52,502
Total Operating Expenses	<u><u>\$ 31,120,418</u></u>

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2009	\$ -	\$ 236,672	\$ 236,672	0%	\$ 9,101,375	2.6%
7/1/2011	-	340,619	340,619	0%	9,336,046	3.6%
7/1/2013	-	470,629	470,629	0%	10,841,725	4.3%

Note: (1) The OPEB valuation used the projected unit credit method to estimate the actuarial accrued liability.

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

	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the FRS net pension liability	0.028388597%	0.0230143%
College's proportionate share of the FRS net pension liability	\$ 1,732,122	\$ 3,961,785
College's covered-employee payroll (2)	\$ 12,444,911	\$ 11,664,616
College's proportionate share of the FRS net pension liability (asset) as a percentage of its covered-employee payroll	15.98%	37.44%
FRS Plan fiduciary net position as a percentage of the total pension liability	96.09%	88.54%

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

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, State College 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 College Contributions –
Florida Retirement System Pension Plan**

	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required FRS contribution	\$ 702,580	\$ 621,831
FRS contributions in relation to the contractually required contribution	<u>(702,580)</u>	<u>(621,831)</u>
FRS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll (2)	\$ 12,865,517	\$ 12,444,911
FRS contributions as a percentage of covered-employee payroll	5.60%	5.74%

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

	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.035779918%	0.034050966%
College's proportionate share of the HIS net pension liability	\$ 3,345,510	\$ 2,964,584
College's covered-employee payroll (2)	\$ 10,636,070	\$ 9,892,723
College's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	30.86%	28.01%
HIS Plan fiduciary net position as a percentage of the total pension liability	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 College Contributions –
Health Insurance Subsidy Pension Plan**

	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 141,098	\$ 122,570
HIS contributions in relation to the contractually required HIS contribution	<u>(141,098)</u>	<u>(122,570)</u>
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll (2)	\$ 11,215,377	\$ 10,636,070
HIS contributions as a percentage of covered-employee payroll	1.12%	1.13%

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.

1. Schedule of Funding Progress – Other Postemployment Benefits Plan

The July 1, 2013, unfunded actuarial accrued liability of \$470,629 was significantly higher than the July 1, 2011, liability of \$340,619 as a result of the following:

- Demographic assumptions (rates of withdrawal, retirement, disability and mortality) were revised to be consistent with those used for the Florida Retirement System.
- The assumed per capita costs of healthcare were updated.
- The rates of healthcare inflation used to project the per capita healthcare costs were revised.
- The rates of participation in the Plan were adjusted to reflect current experience.
- The conditions for retirement eligibility and rates of retirement were supplemented to accommodate those active employees hired on or after July 1, 2011.

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

Changes of Assumptions. As of June 30, 2014, the inflation rate assumption was decreased from 3 percent to 2.6 percent, the real payroll growth assumption was decreased from 1 percent to 0.65 percent, and the overall payroll growth rate assumption was decreased from 4 percent to 3.25 percent. The long-term expected rate of return decreased from 7.75 percent to 7.65 percent.

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

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lake-Sumter State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 14, 2016, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to College management in our operational audit report No. 2016-048.

Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS** is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 14, 2016