

EDISON STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2013



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and Presidents who served during the 2012-13 fiscal year are listed below:

	<u>County</u>
Marjorie Starnes-Bilotti, J.D., Vice Chair to 7-23-12, Chair from 7-24-12	Lee
Sankey "Eddie" Webb, III, Vice Chair from 7-24-12	Charlotte
Ann E. Berlam, Chair to 7-23-12	Collier
Brian G. Chapman, Jr.	Lee
Tristan Chapman from 2-22-13	Hendry
Dr. Randall T. Parrish, Jr., to 2-21-13	Hendry
Julia G. Perry	Glades
Braxton C. Rhone	Lee
Christopher T. Vernon, J.D.	Collier
Vacancy (1)	Charlotte

J. Dudley Goodlette, Interim President to July 30, 2012

Dr. Jeffery S. Allbritten, President from July 31, 2012

Note: (1) Position remained vacant from July 1, 2012,
through June 30, 2013.

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 audit team leader was James A. Grattan, CPA, and the audit was supervised by Deirdre F. Waigand, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 412-2869.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

EDISON STATE COLLEGE
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the College's basic financial statements 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 Edison 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, 2013. 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. 2014-012.

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.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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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 Edison 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, 2013, 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 blended and discretely presented component units, as described in note 1 to the financial statements. The financial statements of Edison State College Financing Corporation, a blended component unit, represent 15.3 percent, 55.2 percent, 3.3 percent, and 2.5 percent, respectively, of the assets, liabilities, net position, and revenues, reported for Edison State College. The financial statements of the discretely presented component unit represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended and discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Edison State College and of its discretely presented component unit as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS 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 required 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 Edison 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 THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Edison State College's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 24, 2014

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, 2013, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. 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, 2013, and June 30, 2012, its blended component unit Edison State College Financing Corporation, for the fiscal years ended March 31, 2013, and March 31, 2012, and its discretely presented component unit Edison State College Foundation, Inc., for the fiscal years ended March 31, 2013, and March 31, 2012.

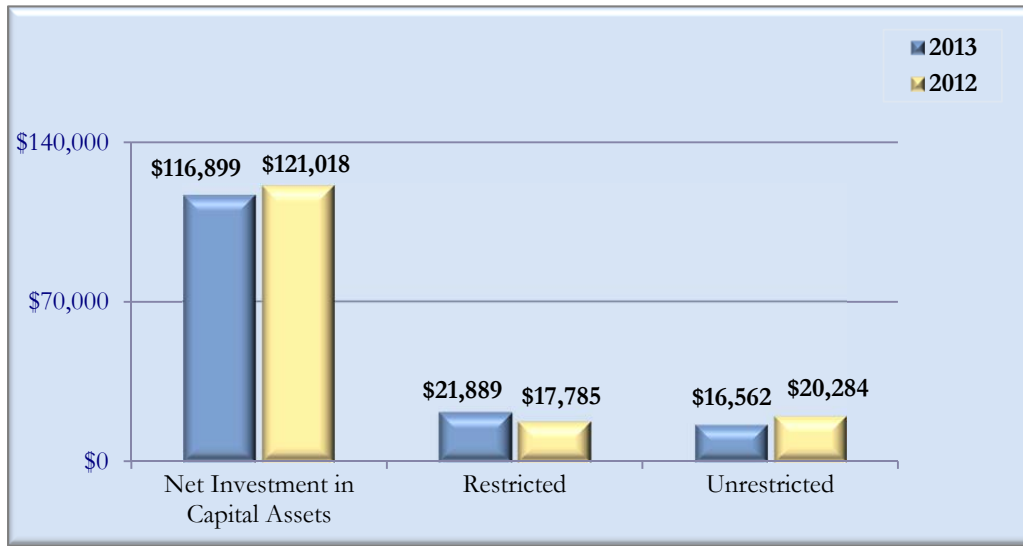
FINANCIAL HIGHLIGHTS

The College's assets totaled \$204.5 million at June 30, 2013. This balance reflects a \$3.4 million, or 1.7 percent, increase as compared to the 2011-12 fiscal year. In addition, the College reclassified accumulated decreases in the fair value of an interest rate swap agreement in accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. These accumulated decreases in fair value at June 30, 2013 are reported as deferred outflows of resources totaling \$2.3 million. Liabilities increased by \$9.4 million, or 22.4 percent, totaling \$51.5 million at June 30, 2013, compared to \$42.1 million at June 30, 2012. As a result, the College's net position decreased by \$3.7 million, resulting in a year-end balance of \$155.3 million due to a decline in enrollment for the College during the fiscal year.

The College's operating revenues totaled \$23.7 million for the 2012-13 fiscal year, representing a 18.6 percent decrease as compared to the 2011-12 fiscal year due mainly to decreased enrollment during the 2012-13 fiscal year. Operating expenses totaled \$90.9 million for the 2012-13 fiscal year, representing a decrease of 2.2 percent as compared to the 2011-12 fiscal year due mainly to decreases in scholarships and waivers and materials and supplies.

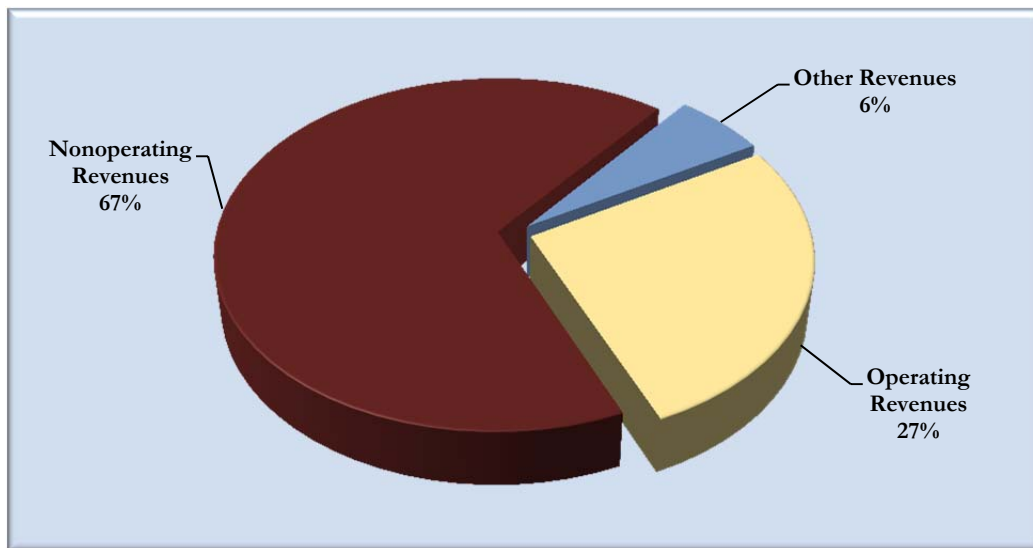
Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities. The College's comparative total net position by category for the fiscal years ended June 30, 2013, and 2012, is shown in the following graph:

**Net Position: College
(In Thousands)**



The following chart provides a graphical presentation of College revenues by category for the 2012-13 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. These financial statements, and notes thereto, provide information related to the College as a whole, present a long-term view of the College’s finances, and include activities for the following entities:

- Edison 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. In addition, the College operates two collegiate high schools whose activities are also reflected herein.
- Edison State College Financing Corporation (Blended 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. Based on the application of the criteria for determining component units, the Financing Corporation is included within the College's reporting entity as a blended component unit. The Financing Corporation's fiscal year is from April 1st through March 31st. As a result, the Financing Corporation's financial activities included in the MD&A and accompanying financial statements are for the fiscal years ended March 31, 2013, and 2012, respectively. During the fiscal year ended March 31, 2013, the Financing Corporation began operations of its on-campus housing units.

- Edison State College Foundation, Inc. (Discretely Presented 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 Foundation's fiscal year is from April 1st through March 31st. As a result, the Foundation's financial activities presented in the MD&A and accompanying financial statements are for the fiscal years ended March 31, 2013, and 2012, respectively.

THE STATEMENT OF NET POSITION

The statement of net position reflects the assets, deferred outflows of resources, and liabilities 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, equals net position, which is one indicator of the College's current financial condition. The changes in net position that occurs over time indicate improvement or deterioration in the College's financial condition.

A condensed statement of assets, deferred outflows of resources, liabilities, and net position of the College and its discretely presented 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	
	6-30-13	6-30-12	3-31-13	3-31-12
Assets				
Current Assets	\$ 25,228	\$ 18,765	\$ 191	\$ 433
Capital Assets, Net	156,066	153,277		
Other Noncurrent Assets	23,253	29,124	46,866	45,767
Total Assets	204,547	201,166	47,057	46,200
Deferred Outflows of Resources	2,301			
Liabilities				
Current Liabilities	5,184	6,025	3,535	4,850
Noncurrent Liabilities	46,314	36,054	1,100	
Total Liabilities	51,498	42,079	4,635	4,850
Net Position				
Net Investment in Capital Assets	116,899	121,018		
Restricted	21,889	17,785	38,552	36,819
Unrestricted	16,562	20,284	3,870	4,531
Total Net Position	\$ 155,350	\$ 159,087	\$ 42,422	\$ 41,350

Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities. Current assets increased primarily due to increases in both unrestricted and restricted cash and cash equivalents, as well as restricted investments and due from other governmental agencies. Noncurrent liabilities increased due to an increase in outstanding bonds payable. The College adopted GASB Statement No. 63 in the 2012-13 fiscal year. As a result, accumulated decreases in fair value of hedging derivatives related to an interest rate swap agreement, used to manage the risk of rising interest rates on variable rate-based debt, are now presented separately on the statement of net position as deferred outflows of resources. Prior to adoption, these accumulated

decreases in fair value were included as a component of noncurrent assets, and the amount at June 30, 2012, was \$2 million.

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 discretely presented 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	
	6-30-13	6-30-12	3-31-13	3-31-12
Operating Revenues	\$ 23,717	\$ 29,121	\$ 860	\$ 2,267
Less, Operating Expenses	90,915	92,917	2,987	4,984
Operating Loss	(67,198)	(63,796)	(2,127)	(2,717)
Net Nonoperating Revenues	58,219	61,780	3,151	1,173
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(8,979)	(2,016)	1,024	(1,544)
Other Revenues	5,242	3,004	48	567
Net Increase (Decrease) In Net Position	(3,737)	988	1,072	(977)
Net Position, Beginning of Year	159,087	158,099	41,350	42,327
Net Position, End of Year	\$ 155,350	\$ 159,087	\$ 42,422	\$ 41,350

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.

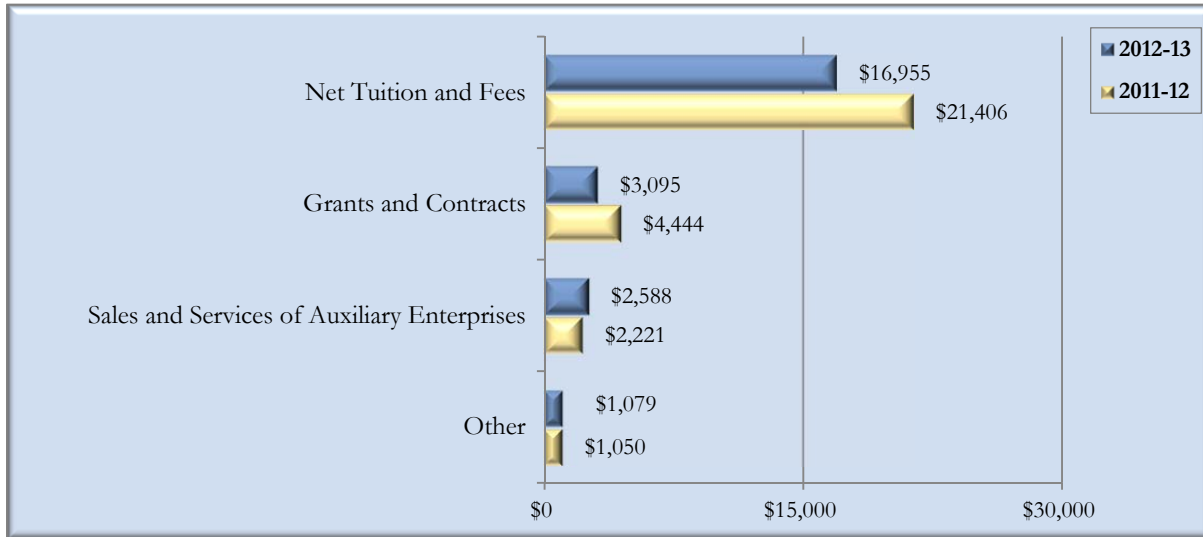
The following summarizes the operating revenues for the College and its discretely presented component unit by source that were used to fund operating activities for the respective fiscal years ended:

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

	College		Component Unit	
	6-30-13	6-30-12	3-31-13	3-31-12
Net Tuition and Fees	\$ 16,955	\$ 21,406	\$	\$
Grants and Contracts	3,095	4,444	834	2,241
Sales and Services of Auxiliary Enterprises	2,588	2,221		
Other	1,079	1,050	26	26
Total Operating Revenues	\$ 23,717	\$ 29,121	\$ 860	\$ 2,267

The following chart presents the College’s operating revenues for the 2012-13 and 2011-12 fiscal years:

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



College operating revenues decreased by \$5.4 million primarily due to a decrease in student tuition and fees caused by a decrease in scholarship allowances due to a decline in enrollment, and a decrease in nongovernmental grants and contracts due to a decrease in private funding. These decreases were partially offset by an increase in revenues from sales and services of auxiliary enterprises.

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.

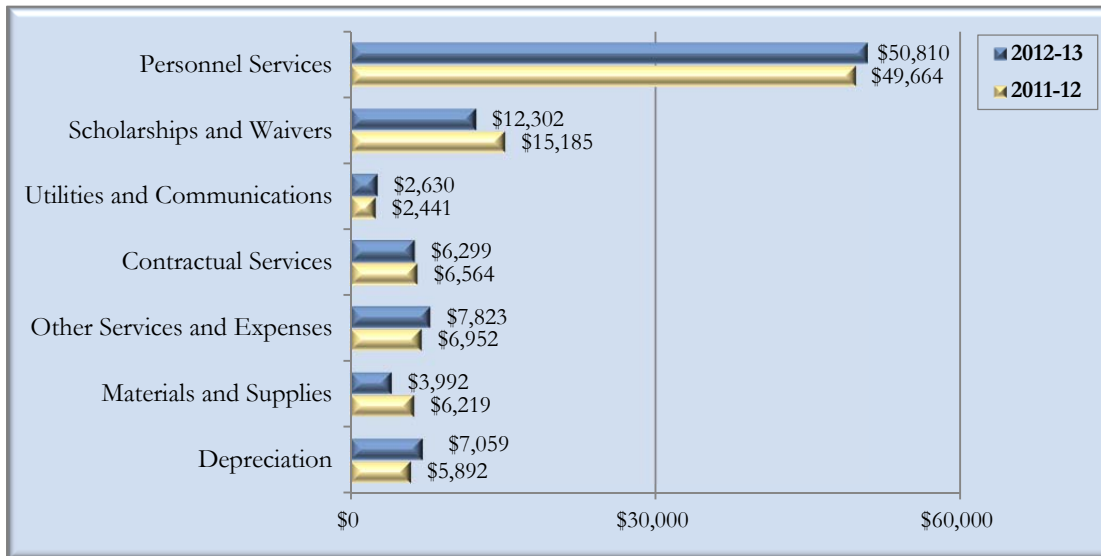
Operating expenses by natural classification for the College and its discretely presented component unit for the respective fiscal years ended are presented in the following table:

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

	College		Component Unit	
	6-30-13	6-30-12	3-31-13	3-31-12
Personnel Services	\$ 50,810	\$ 49,664	\$	\$
Scholarships and Waivers	12,302	15,185	1,226	2,184
Utilities and Communications	2,630	2,441		
Contractual Services	6,299	6,564	1,057	1,948
Other Services and Expenses	7,823	6,952	704	842
Materials and Supplies	3,992	6,219		
Depreciation	7,059	5,892		10
Total Operating Expenses	\$ 90,915	\$ 92,917	\$ 2,987	\$ 4,984

The following chart presents the College’s operating expenses for the 2012-13 and 2011-12 fiscal years:

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



College operating expenses decreased primarily as a result of a decrease in scholarships and waivers due to a decline in enrollment and a decrease in materials and supplies due to completion of construction and furnishings of the housing building in the prior fiscal year.

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 2012-13 and 2011-12 fiscal years:

**Nonoperating Revenues (Expenses): College
(In Thousands)**

	6-30-13	6-30-12
State Noncapital Appropriations	\$ 28,650	\$ 27,924
Federal and State Student Financial Aid	28,205	32,966
Gifts and Grants	1,877	409
Investment Income	253	390
Other Nonoperating Revenues	582	794
Interest on Capital Asset-Related Debt	(1,348)	(703)
Net Nonoperating Revenues	\$ 58,219	\$ 61,780

Changes in nonoperating revenues were primarily due to decreases in Federal and State student financial aid associated with the decline in enrollment. Gifts and grants increased as a result of additional funds provided by the Foundation and other private donations.

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, expenses, gains, or losses for the 2012-13 and 2011-12 fiscal years:

**Other Revenues, Expenses, Gains, or Losses: College
(In Thousands)**

	6-30-13	6-30-12
State Capital Appropriations	\$ 2,809	\$ 1,265
Capital Grants, Contracts, Gifts, and Fees	2,433	1,739
Total	\$ 5,242	\$ 3,004

The \$1.5 million increase in State capital appropriations is primarily due to an increase in the State’s Public Education Capital Outlay (PECO) funding.

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 statement of cash flows also helps users assess:

- An entity’s ability to generate future net cash flows.
- Its ability to meet its obligations as they come due.
- Its need for external financing.

The following summarizes the College’s cash flows for the 2012-13 and 2011-12 fiscal years:

**Condensed Statement of Cash Flows: College
(In Thousands)**

	6-30-13	6-30-12
Cash Provided (Used) by:		
Operating Activities	\$ (60,484)	\$ (62,212)
Noncapital Financing Activities	58,965	62,093
Capital and Related Financing Activities	2,835	(2,981)
Investing Activities	1,721	(965)
Net Increase (Decrease) in Cash and Cash Equivalents	3,037	(4,065)
Cash and Cash Equivalents, Beginning of Year	17,127	21,192
Cash and Cash Equivalents, End of Year	\$ 20,164	\$ 17,127

Major sources of cash inflows came from State noncapital appropriations (\$28.6 million), Federal and State student financial aid (\$28.2 million), Federal direct student loan program receipts (\$19.5 million), net student tuition and fees (\$17.3 million), and proceeds from capital debt (\$11.1 million). Major uses of cash were for payments to employees (\$41.5 million), payments to suppliers for goods and services (\$19.8 million), disbursements to students for Federal

direct student loans (\$19.5 million), student scholarships (\$12.3 million), and purchases of capital assets (\$10.6 million).

Cash increased 17.7 percent primarily due to the Finance Corporation draw of funds on the Bank Qualified Loan.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2013, the College had \$227.3 million in capital assets, less accumulated depreciation of \$71.3 million, for net capital assets of \$156 million. Depreciation charges for the current fiscal year totaled \$7.1 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)

Capital Assets	2013	2012
Land	\$ 3,491	\$ 3,491
Art Collections	297	297
Construction in Progress	2,181	16,275
Buildings	198,610	176,382
Other Structures and Improvements	13,312	12,606
Furniture, Machinery, and Equipment	9,439	8,602
Total Capital Assets	227,330	217,653
Less, Accumulated Depreciation	(71,264)	(64,376)
Capital Assets, Net	\$ 156,066	\$ 153,277

CAPITAL EXPENSES AND COMMITMENTS

Major construction commitments through June 30, 2013, were incurred on the following projects: Renovation of Lee Campus Building G for \$709 thousand, renovation of Lee Campus Building L for \$1 million, renovation of Barbara B. Mann Performing Arts Hall for \$1.1 million, remodeling of Collier Campus Building A for \$930 thousand, and minor projects on the Lee Campus totaling \$660 thousand. However, the most significant capital addition was the completion of the 405 unit on-campus student housing building totaling approximately \$21.6 million. The College's major construction commitments at June 30, 2013, are as follows:

	Amount (In Thousands)
Total Committed	\$ 4,403
Completed to Date	2,181
Balance Committed	\$ 2,222

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

DEBT ADMINISTRATION

As of June 30, 2013, the College had approximately \$41.8 million in outstanding bonds payable, comprised primarily of the State of Florida Department of Education Capital Improvement Revenue Bonds (Revenue Bonds) issued on behalf of the College with outstanding balances totaling \$14.2 million and the Student Housing Qualified Bonds issued by the Edison State College Financing Corporation with outstanding balances of \$25.7 million. The Revenue Bonds mature serially and are secured by the College's capital improvement fees. The College also holds \$2 million in

outstanding State Board of Education (SBE) Capital Outlay Bonds issued on behalf of the College. These bonds mature serially and are secured by the College's portion of the State assessed motor vehicle license tax. Proceeds from these bonds are to be used to construct and renovate College facilities. More detailed information about the College's long-term liabilities 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 and the southwest Florida region. Limited economic growth and increased demand for State resources will continue to influence appropriations to higher education. In response to an anticipated decrease in enrollment, the Board of Trustees increased the tuition rate three percent to take effect beginning with the fall 2013 term. The College's current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services. In addition, a decrease in capital appropriations is also anticipated, which will affect future construction and renovation projects planned.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, and financial statements and notes thereto, or requests for additional financial information should be addressed to Gina Doeble, CPA, Vice President of Administrative Services, Edison State College, 8099 College Parkway, Fort Myers, Florida 33919.

BASIC FINANCIAL STATEMENTS

EDISON STATE COLLEGE A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET POSITION June 30, 2013

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 7,429,886	\$ 145,715
Restricted Cash and Cash Equivalents	3,416,700	24,100
Restricted Investments	4,515,418	
Accounts Receivable, Net	4,168,753	21,285
Notes Receivable, Net	171,619	
Due from Other Governmental Agencies	4,935,525	
Prepaid Expenses	590,000	
Total Current Assets	25,227,901	191,100
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	9,317,858	
Investments	11,713,120	3,130,419
Restricted Investments	1,924,106	38,595,013
Depreciable Capital Assets, Net	150,096,520	
Nondepreciable Capital Assets	5,969,963	
Other Assets	297,590	5,140,906
Total Noncurrent Assets	179,319,157	46,866,338
TOTAL ASSETS	204,547,058	47,057,438
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated Decrease in Fair Value of Hedging Derivatives	2,300,988	
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,224,841	170,629
Accrued Interest Payable	81,567	
Salary and Payroll Taxes Payable	951,110	
Retainage Payable	143,938	
Due to Other Governmental Agencies	2,470	
Unearned Revenue	222,264	3,364,680
Deposits Held for Others	45,584	
Long-Term Liabilities - Current Portion:		
Bonds Payable	1,323,378	
Special Termination Benefits Payable	150,323	
Compensated Absences Payable	38,997	
Total Current Liabilities	5,184,472	3,535,309
Noncurrent Liabilities:		
Bonds Payable	40,486,681	
Derivative Instrument Liability	2,300,988	
Notes Payable		1,100,000
Special Termination Benefits Payable	113,457	
Compensated Absences Payable	3,277,094	
Other Postemployment Benefits Payable	135,379	
Total Noncurrent Liabilities	46,313,599	1,100,000
TOTAL LIABILITIES	51,498,071	4,635,309

EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2013

	College	Component Unit
NET POSITION		
Net Investment in Capital Assets	\$ 116,899,141	\$
Restricted:		
Nonexpendable:		
Endowment	751,249	17,938,055
Expendable:		
Grants and Loans	1,724,132	
Scholarships	1,442,626	20,614,417
Capital Projects	15,591,776	
Debt Service	2,378,617	
Unrestricted	16,562,434	3,869,657
TOTAL NET POSITION	\$ 155,349,975	\$ 42,422,129

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

EDISON 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, 2013

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$18,686,051	\$ 16,955,057	\$
Federal Grants and Contracts	2,156,889	
Nongovernmental Grants and Contracts	938,699	833,836
Auxiliary Enterprises	2,587,609	
Other Operating Revenues	1,078,754	26,000
Total Operating Revenues	23,717,008	859,836
EXPENSES		
Operating Expenses:		
Personnel Services	50,810,273	
Scholarships and Waivers	12,301,836	1,225,524
Utilities and Communications	2,629,490	
Contractual Services	6,299,061	1,057,536
Other Services and Expenses	7,823,123	703,975
Materials and Supplies	3,992,171	
Depreciation	7,059,199	
Total Operating Expenses	90,915,153	2,987,035
Operating Loss	(67,198,145)	(2,127,199)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	28,649,797	
Federal and State Student Financial Aid	28,205,170	
Gifts and Grants	1,877,515	
Investment Income	253,695	3,150,845
Other Nonoperating Revenues	581,715	
Interest on Capital Asset-Related Debt	(1,348,466)	
Net Nonoperating Revenues	58,219,426	3,150,845
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(8,978,719)	1,023,646
State Capital Appropriations	2,808,820	
Capital Grants, Contracts, Gifts, and Fees	2,433,299	
Increase to Permanent Endowments		48,803
Total Other Revenues	5,242,119	48,803
Increase (Decrease) in Net Position	(3,736,600)	1,072,449
Net Position, Beginning of Year	159,086,575	41,349,680
Net Position, End of Year	\$ 155,349,975	\$ 42,422,129

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

EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 17,335,518
Grants and Contracts	3,095,588
Payments to Suppliers	(19,752,302)
Payments for Utilities and Communications	(2,629,490)
Payments to Employees	(41,489,718)
Payments for Employee Benefits	(9,043,617)
Payments for Scholarships	(12,301,836)
Loans Issued to Students	(514,231)
Collection on Loans to Students	536,349
Auxiliary Enterprises	3,235,349
Other Receipts	1,044,653
	(60,483,737)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	28,649,797
Federal and State Student Financial Aid	28,205,170
Federal Direct Loan Program Receipts	19,494,532
Federal Direct Loan Program Disbursements	(19,494,532)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	1,524,313
Other Nonoperating Receipts	586,135
	58,965,415
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	11,122,764
State Capital Appropriations	2,149,302
Capital Grants and Gifts Received	2,433,299
Purchases of Capital Assets	(10,623,096)
Principal Paid on Capital Debt	(1,030,631)
Interest Paid on Capital Debt	(1,217,192)
	2,834,446
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	1,962,135
Purchase of Investments	(540,678)
Investment Income	299,614
	1,721,071
Net Increase in Cash and Cash Equivalents	3,037,195
Cash and Cash Equivalents, Beginning of Year	17,127,249
Cash and Cash Equivalents, End of Year	\$ 20,164,444

**EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2013**

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (67,198,145)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	7,059,199
Changes in Assets and Liabilities:	
Accounts Receivable, Net	343,485
Notes Receivable, Net	22,118
Due From Other Governmental Agencies	(182,034)
Prepaid Expense	(242,340)
Accounts Payable	(747,867)
Salaries and Payroll Taxes Payable	32,847
Due to Other Governmental Agencies	2,470
Unearned Revenue	222,264
Deposits Held for Others	(72,672)
Special Termination Benefits Payable	(20,530)
Compensated Absences Payable	247,686
Other Postemployment Benefits Payable	49,782
	\$ (60,483,737)
NET CASH USED BY OPERATING ACTIVITIES	

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

Unrealized losses on investments were recognized as a reduction to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (45,919)
Losses from the disposal of capital assets were recognized as a reduction to other nonoperating revenues on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (4,420)

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

EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of Edison State College, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The District 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 District 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 District correspond with those of Charlotte, Collier, Glades, Hendry, and Lee 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 District Board of Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the District Board of Trustees are such that exclusion would cause the College's financial statements to be misleading. Based upon 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.

Blended Component Unit. Based on the application of the criteria for determining component units, the Edison State College Financing Corporation (Financing Corporation) is included within the College's reporting entity as a blended component unit. The Financing Corporation is a not-for-profit Florida corporation under the provisions of Chapter 617, Florida Statutes, and is also a direct-support organization, as defined in Section 1004.70, Florida Statutes. The Financing Corporation 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 Financing Corporation was established to finance and/or operate parking, student housing, and other capital projects for the exclusive benefit of the College and its students. Due to the substantial economic relationship between the Financing Corporation and the College, the financial activities of the Financing Corporation are included in the College's financial statements.

The Financing Corporation is audited by other auditors, pursuant to Section 1004.70(6), Florida Statutes. The Financing Corporation's audited financial statements are available to the public at the College.

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the Edison 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 audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at 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 March 31, 2013.

EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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.

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, and related assets, deferred outflows of resources, and liabilities 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, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, and liabilities 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 units use the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and 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,

EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

physical plant operations, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. 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 differences 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 applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the College computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party aid.

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

Cash and Cash Equivalents. **(AWP LINK)** The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, cash invested overnight in a money market mutual fund, and cash placed 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 three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the SPIA and the 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, 2013, the College reported as cash equivalents at fair value \$41,928 in the 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 2.65 years, and had a fair value factor of 0.9975 at June 30, 2013. 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 SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

**EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

At June 30, 2013, the College reported as cash equivalents \$113,321 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, as of June 30, 2013, 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 40 days as of June 30, 2013. 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; art collections; 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, derivative instrument liability, special termination benefits payable, compensated absences payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year.

2. INVESTMENTS

The College's Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the SBA; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College's Board of Trustees as authorized by law. State Board of Education (SBE) Rule 6A-14.0765(3), Florida

**EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments.

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

The College’s investments at June 30, 2013, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
SBA Fund B Surplus Funds Trust Fund	\$ 50,318
SBA Debt Service Accounts	1,175,738
Federal Agency Obligations	15,217,864
Foreign Obligations	229,000
Mutual Funds	748,367
State Municipal Bonds	256,239
Corporate Bonds	475,118
Total Investments	\$ 18,152,644

State Board of Administration Fund B Surplus Funds Trust Fund

The Fund B Surplus Funds Trust Fund (Fund B) is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, and is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to the Florida PRIME investment pool, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B on December 4, 2007. One hundred percent of such distributions from Fund B are available as liquid balance within the Florida PRIME investment pool.

At June 30, 2013, the College reported investments at fair value of \$50,318 in Fund B. The College’s investments in Fund B are accounted for as a fluctuating net position value pool, with a fair value factor of 1.11845939 at June 30, 2013. The weighted-average life (WAL) of Fund B at June 30, 2013, was 3.98 years. A portfolio’s WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2013. WAL measures the sensitivity of Fund B to interest rate changes. The College’s investment in Fund B is unrated.

State Board of Administration Debt Service Accounts

The College reported investments totaling \$1,175,738 at June 30, 2013, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College’s investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State’s Comprehensive Annual Financial Report.

EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Other Investments

The College's other investments at June 30, 2013, totaling \$16,178,221, consisted of Federal agency obligations of \$15,217,864, foreign obligations of \$229,000, State and Municipal bonds of \$256,239, and corporate bonds of \$475,118 reported at fair value. The College also had investments at June 30, 2013, totaling \$748,367 that consisted of mutual funds reported at fair value and are held as part of its endowments.

The following risks apply to these investments:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's investment policy limits interest rate risk by attempting to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of non-operating funds ("core funds") shall have a term appropriate to the need for funds but should not exceed three years.

The College utilizes "effective duration" as a measurement of interest rate risk and as of June 30, 2013, the Federal agency obligations had an effective duration of 1.85 years. The College's investments in mutual funds at June 30, 2013, do not have reported maturities.

As a means of managing its exposure to fair-value losses arising from increasing interest rates, the Financing Corporation has established a target for the duration of its fixed-income portfolio for up to 3 years. The foreign obligations, State and Municipal bonds, and corporate bonds have maturities between 1 to 3 years.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's investment policy does not have a policy on credit risk. The College's investments in Federal agency obligations at June 30, 2013, were rated between AA+ and Aaa by Standard & Poor's and Moody's at June 30, 2013. The College's investments in mutual funds at June 30, 2013, were rated between Baa and Aaa by Moody's and Standard & Poor's at June 30, 2013.

It is the Financing Corporation's policy that the fixed income portfolio must be rated at AA or higher by any of the three rating services. The corporate bonds were rated AA by a national investment rating agency.

Custodial Credit Risk: Custodial risk is the risk that, in the event of failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College's investment policy pursuant to Section 218.415(18), Florida Statutes requires securities, with the exception of certificates of deposits, be held with a third party custodian; and all securities purchased by, and all collateral obtained by the College should be properly designated as an asset of the College. The securities must be held in an account separate and apart from the assets of the financial institution. A third-party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and is doing business in the State of Florida. Certificates of deposit will be placed in the provider's safekeeping department for the term of the deposit.

EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

As of June 30, 2013, the College's Federal agency obligations were held with a third-party custodian as required by the College's investment policy.

The Financing Corporation utilizes the services of investment managers for its investments. The investments held by the investment manager are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Financing Corporation's name.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of the College's investments in a single issuer. The College's investment procedure's has established asset allocation and issuer limits on the following investments which are designed to reduce concentration of credit risk of the College's investment portfolio. A maximum of 100 percent of available funds may be invested in the Florida PRIME investment pool administered by the SBA, money market mutual funds, and in the United States government securities; 50 percent of available funds may be invested in United States government agencies; 80 percent of available funds may be invested in Federal agencies and instrumentalities; and 35 percent of available funds may be invested in nonnegotiable interest-bearing time certificates of deposit with a 5 percent limit on individual issuers.

The Financing Corporation policy limits investments to United States Treasuries, government agencies, and corporate bonds. The maximum exposure to AA rated bonds is 25 percent of the portfolio's market value. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not have purchase limitations. The Financing Corporation also held a cash reserve in U.S. Government money market mutual fund (Fund). An investment in the Fund is neither insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC); the Public Security Act of the State of Florida, Chapter 280, Florida Statutes; or any other government agency. Although the Fund seeks to preserve the value of the investment at \$1 per share, it is possible to lose principal by investing in the Fund. The Financing Corporation has not experienced any losses on this account.

Management of the Financing Corporation believes the concentration of credit risk with respect to its investments is mitigated by investing through the use of a national investment manager in U.S. Treasuries, government agencies, highly rated corporate bonds, and widely traded mutual funds.

Component Unit Investments

Investments held by the Edison State College Foundation, Inc., at March 31, 2013, consisted of money market and mutual funds and are reported at fair value, as follows:

**EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Investment Type	Amount
Money Market Funds	\$ 89,390
Mutual Funds:	
Hedge	6,132,530
Equities (1)	20,451,749
Bonds	15,051,763
Total Component Unit Investments	\$ 41,725,432

Note: (1) Investment risk disclosures are not required for equity mutual funds.

Interest Rate Risk: As a means of managing its exposure to fair-value losses arising from increasing interest rates, the Foundation has established a target for the duration of its fixed-income portfolio to be between 3 and 7 years.

As of March 31, 2013, the maturities of the Foundation’s mutual funds-bonds investments of \$15,051,763 by percentage of its portfolio, are presented in the following table:

Investment Maturities	Percentage of Portfolio
Less than 1 Year	17.60
1 - 3 years	21.78
4 - 5 years	22.86
5 - 7 years	16.92
7 - 9 years	9.96
9 or more years	10.88
Total	100.00

The Foundation’s investments in fixed-income mutual funds are held as a portion of large mutual funds and are not individual securities held by the Foundation. Therefore, it is not possible to disclose maturities by actual security held. Instead, this disclosure is provided for the fixed-income mutual funds in total. Disclosure of maturities is not required for money market mutual funds.

Credit Risk: It is the Foundation’s policy that the investment grade portion of the fixed-income portfolio must be rated at the four highest ratings (i.e. single “A” or higher) or a comparable rating by Moody’s or Standard & Poor’s rating services, respectively. The high-yield portion of the fixed-income portfolio will consist of below investment grade securities. There is no bottom limit on the ratings of the high-yield portfolio.

The Foundation’s fixed-income investments at March 31, 2013 were rated as follows:

**EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Rating	Percent of Portfolio
Aaa	66.50
Aa	3.79
A	13.54
Baa	12.95
Ba and below	2.36
Not Rated	0.86
	100.00

The Foundation’s investments in money market and fixed-income mutual funds are held as a portion of large mutual funds and are not individual securities held by the Foundation. Therefore, it is not possible to disclose credit ratings by actual security held. Instead, this disclosure is provided for the fixed-income mutual funds in total. Obligations of the United States Government or obligations explicitly guaranteed by the United States Government are not considered to have credit risk and do not have purchase limitations.

Custodial Credit Risk: The Foundation utilizes the services of investment managers. The investments held by these managers are uninsured and unregistered, with the securities held by the counterparty’s trust department or agent in the Foundation’s name. There were no losses during the period due to default by counterparties to investment transactions.

Concentration of Credit Risk: The Foundation’s policies state the non-United States investment grade portion of the fixed-income portfolio must consist of securities of non-United States issuers located in at least three non-United States countries. The Foundation’s policies do not specifically limit the debt of securities maturity dates.

3. 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, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$540,095 allowance for doubtful accounts.

4. NOTES RECEIVABLE

Notes receivable represent student loans made under the short-term loan program of \$175,893. Notes receivable are reported net of a \$4,274 allowance for doubtful notes.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

As of June 30, 2013, the College reported the following amounts as due from other governmental agencies:

**EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Description	Amount
Public Education Capital Outlay	\$ 2,493,427
Tuition and Fees	1,001,437
Florida Prepaid College Fund	606,783
Federal Student Financial Aid	588,481
Miscellaneous	245,397
Total Due From Other Governmental Agencies	\$ 4,935,525

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 3,491,190	\$	\$	\$ 3,491,190
Art Collections	297,743			297,743
Construction in Progress	16,275,305	3,220,602	17,314,877	2,181,030
Total Nondepreciable Capital Assets	\$ 20,064,238	\$ 3,220,602	\$ 17,314,877	\$ 5,969,963
Depreciable Capital Assets:				
Buildings	\$ 176,381,514	\$ 22,231,544	\$ 3,305	\$ 198,609,753
Other Structures and Improvements	12,605,755	706,103		13,311,858
Furniture, Machinery, and Equipment	8,601,633	1,009,852	172,498	9,438,987
Total Depreciable Capital Assets	197,588,902	23,947,499	175,803	221,360,598
Less, Accumulated Depreciation:				
Buildings	49,351,106	5,178,009		54,529,115
Other Structures and Improvements	9,299,697	921,781		10,221,478
Furniture, Machinery, and Equipment	5,725,459	959,409	171,383	6,513,485
Total Accumulated Depreciation	64,376,262	7,059,199	171,383	71,264,078
Total Depreciable Capital Assets, Net	\$ 133,212,640	\$ 16,888,300	\$ 4,420	\$ 150,096,520

7. UNEARNED REVENUE

Unearned revenue includes student dorm fees paid to the Financing Corporation in advance, and student tuition and fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2013, the College reported the following amounts as unearned revenue:

Description	Amount
Unearned Dorm Fees	\$ 213,264
Student Tuition and Fees	9,000
Total Unearned Revenue	\$ 222,264

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8. UNEARNED REVENUE – COMPONENT UNIT

The Foundation received contributions and grants with either time or eligibility requirements. The amounts are available when the restrictions have expired or eligibility requirements have been met. As of March 31, 2013, the following amounts were reported as unearned revenue:

<u>Description</u>	<u>Amount</u>
Irrevocable Charitable Remainder Annuity Trust	\$ 96,565
Pooled Gift Annuity	968,115
Life Estate Trust	<u>2,300,000</u>
Total Unearned Revenue	<u>\$ 3,364,680</u>

9. DEFERRED OUTFLOW OF RESOURCES

The College's blended component unit, the Financing Corporation, entered into an interest rate swap agreement in connection with its tax-exempt loan to manage the risk of rising interest rates on its variable rate-based debt. The deferred outflow of resources includes the effect of deferring accumulated decreases in fair value of a hedging derivative related to this interest rate swap agreement. The Bonds Payable section of Note 10 below includes a complete discussion of the swap agreement.

10. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2013, include bonds payable, derivative instrument liability, special termination benefits payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2013, 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	\$ 31,717,926	\$ 11,122,764	\$ 1,030,631	\$ 41,810,059	\$ 1,323,378
Derivative Instrument Liability	2,045,346	255,642		2,300,988	
Special Termination					
Benefits Payable	284,310	131,786	152,316	263,780	150,323
Compensated Absences Payable	3,068,405	503,696	256,010	3,316,091	38,997
Other Postemployment					
Benefits Payable	85,597	92,297	42,515	135,379	
Total Long-Term Liabilities	<u>\$ 37,201,584</u>	<u>\$ 12,106,185</u>	<u>\$ 1,481,472</u>	<u>\$ 47,826,297</u>	<u>\$ 1,512,698</u>

Bonds Payable. Various bonds were issued to finance capital outlay projects of the College. The following is a description of the bonded debt issues:

- **SBE Capital Outlay Bonds.** The 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 SBA administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements.

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- Capital Improvement Revenue Bonds, Series 2010A. These bonds are authorized by Article VII, Section 11(d) of the Florida Constitution; Sections 215.57 through 215.83 and Section 1009.23, Florida Statutes; and other applicable provisions of law. Principal and interest on these bonds are secured by and payable solely from a first lien pledge of the capital improvement fees collected pursuant to Section 1009.23(11), Florida Statutes, by the Series 2010A participating colleges on a parity with any additional bonds issued subsequent to the issuance of the Series 2010A bonds. The Series 2010A bonds constitute the first series of bonds to be issued pursuant to a Master Authorizing Resolution. Upon the issuance of additional bonds, all bonds will share a parity first lien on the pledged revenues of all colleges participating in any series of bonds then outstanding. The Series 2010A bonds will share the lien of such additional bonds on the Series 2010A pledged revenues and on the revenues pledged by the colleges participating in such additional bonds. The bonds were issued for new construction and renovation and remodeling of educational facilities.

The College had the following bonds payable at June 30, 2013:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2011A, Refunding	\$ 30,000	5.0	2014
Series 2008A	1,285,000	3.5 - 5.0	2028
Series 2005B	40,000	5.0	2018
Series 2005A, Refunding	270,000	5.0	2017
Series 2005A, New Money	235,000	4.0-5.0	2025
Series 2004A	95,000	4.0 - 4.625	2024
Florida Department of Education Capital Improvement Revenue Bonds:			
Series 2010A	14,185,000	3.0-4.375	2031
Total	\$ 16,140,000		

Annual requirements to amortize the SBE and Florida Department of Education bonded debt outstanding as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds and Capital Improvement Revenue Bonds		
	Principal	Interest	Total
2014	\$ 780,000	\$ 649,203	\$ 1,429,203
2015	780,000	616,927	1,396,927
2016	800,000	590,527	1,390,527
2017	815,000	559,927	1,374,927
2018	800,000	525,427	1,325,427
2019-2023	4,490,000	2,102,175	6,592,175
2024-2028	5,470,000	1,082,821	6,552,821
2029-2031	2,205,000	96,784	2,301,784
Total	\$ 16,140,000	\$ 6,223,791	\$ 22,363,791

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Bonds Payable – Financing Corporation On December 1, 2010, the Edison State College Financing Corporation (Corporation) entered into a Financing Agreement with the Lee County Development Authority to issue a \$26,300,000 Industrial Development Revenue Bond (Series 2010A) for the construction of a 405-bed dormitory. On December 21, 2010, the Corporation closed on the Bond purchased by Branch Banking and Trust Company as a tax-exempt Bank Qualified Loan (BQ). The BQ provides for the repayment of principal and related interest through December 1, 2040. The BQ will bear interest at a rate computed as the sum of (a) 68 percent of one-month London Interbank Offered Rate (LIBOR) and (b) 65 percent of 1.85 percent per annum, as adjusted monthly with changes in one-month LIBOR. The rate as of March 31, 2013 was 1.341 percent.

The BQ provides for draws until all funds associated with the BQ have been exhausted. As of March 31, 2013, the Financing Corporation had drawn \$25,940,690 and made repayments in the amount of \$270,631. The bond payable amount at March 31, 2013 was \$25,670,059.

The following is a schedule of future debt service requirements for the BQ:

Fiscal Year Ending March 31	LCDA Industrial Development Revenue Bond		
	Principal	Interest	Total
2014	\$ 543,378	\$ 959,157	\$ 1,502,535
2015	563,830	938,705	1,502,535
2016	585,053	917,482	1,502,535
2017	604,534	898,001	1,502,535
2018	629,831	872,704	1,502,535
2019-2023	3,520,678	3,991,998	7,512,676
2024-2028	4,235,341	3,277,335	7,512,676
2029-2033	5,093,924	2,418,752	7,512,676
2034-2038	6,129,883	1,382,793	7,512,676
2039-2041	3,763,607	247,443	4,011,050
Total	\$ 25,670,059	\$ 15,904,370	\$ 41,574,429

Tenant revenues collected are pledged first to be used for debt service. The total amount of rental revenue recorded during the year ended March 31, 2013 was \$1,471,563.

The Corporation was required to deposit into a separate account an amount to be used for repayment of interest on the Series 2010A bonds through the construction period. The amount required is recognized in the financial statements as restricted cash. At March 31, 2013, there was \$2,225,967 in restricted cash available for future debt service requirements.

Interest Rate Swap Agreement. On December 23, 2010, the Financing Corporation (Corporation), as the counterparty, entered into an interest rate swap agreement (Swap) with Branch Banking and Trust Company for the purpose of hedging its variable interest rate risk on the tax-exempt loan. The Swap provides that the Corporation pay an annual fixed rate of 3.66 percent effective July 1, 2012, and terminating December 17, 2017. The term and notional amount of the Swap will not exceed the term and principal amount of the tax-exempt loan.

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The Swap has been determined to be an effective hedge. As such, the change in fair value is reported as a deferred outflow of resources on the statement of net position. As of March 31, 2013, the Corporation was not exposed to credit risk on this interest rate swap agreement because it had a negative fair value of \$2,300,988, which is reported as a derivative instrument liability on the statement of net position. This liability reflects the settlement amount the Corporation would have to pay on March 31, 2013, to cancel the interest rate swap agreement. The liability is estimated based on valuation models. If interest rates change and the fair value of the interest rate swap agreement becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivatives' fair value. The fair value balances and notional amounts of derivative instruments for the fiscal year then ended March 31, 2013, as reported in the financial statements are presented below:

Interest Rate Swap	Changes in Fair Value Classification	Amount	Fair Value at March 31, 2013 Classification	Amount	Notional Amount
Cash Flow Hedges:					
Pay-Fixed Interest Rate Swap	Deferred Outflow of Resources	\$ (2,300,988)	Deferred Outflow of Resources	\$ (2,300,988)	\$ (26,029,368)

Interest Rate Risk. On its only hedge, a pay-fixed and receive variable interest rate swap agreement, as LIBOR decreases, the Corporation's net payment on the Swap increases.

Termination Risk. The Corporation or its counterparty may terminate the Swap if the other party fails to perform under the terms of the contract. If at the time of termination, a hedging derivative instrument is in a liability position, the College would be liable to the counterparty for a payment equal to the liability.

Rollover Risk. The Corporation is exposed to rollover risk on this hedging instrument as it is a debt hedge that matures or may be terminated prior to the maturity of the hedged debt. When this instrument terminates, the Corporation will be re-exposed to the risks being hedged by the instrument.

Special Termination Benefits Payable. On November 16, 1989, the Board approved a Retirement Incentive Program (Program) that established certain eligibility guidelines for employees to receive benefits under this Program. For qualifying employees, the Program provides payment of 50 percent of the cost of hospitalization and life insurance coverage for a period of 36 calendar months after the effective date of separation; payment for 50 percent of accumulated sick leave for the first 10 years of creditable service, plus an additional 2.5 percent of accumulated sick leave for each year of creditable service beyond 10 years to a maximum of 20 additional years; and a one-time only salary bonus. The College reported a special termination benefits payable for 10 employees of \$263,780 at June 30, 2013, of which \$150,323 represents the current portion.

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, 2013, the estimated liability for compensated

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absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$3,316,091. The current portion of the compensated absences liability, \$38,997, is the amount expected to be paid in the coming fiscal year, and represents eligible payments for unused sick leave on behalf of regular retirees and Deferred Retirement Option Plan Program participants to a deferred compensation annuity program.

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 administered by the Florida Community College Risk Management Consortium (Consortium).

Plan Description. The College contributes to an agent, multiple-employer, defined-benefit health plan administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the Consortium'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 coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone report for the Plan 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 2012-13 fiscal year, 67 retirees received other postemployment healthcare benefits and 56 retirees received postemployment life insurance benefits. The College provided required contributions of \$42,515 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$427,665, which represents 1.6 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:

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Description	Amount
Normal Cost (Service Cost for One Year)	\$ 72,392
Amortization of Unfunded Actuarial Accrued Liability	19,335
Annual Required Contribution	91,727
Interest on Net OPEB Obligation	3,423
Adjustment to Annual Required Contribution	(2,853)
Annual OPEB Cost (Expense)	92,297
Contribution Toward the OPEB Cost	(42,515)
Increase in Net OPEB Obligation	49,782
Net OPEB Obligation, Beginning of Year	85,597
Net OPEB Obligation, End of Year	\$ 135,379

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, 2013, and for the two preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	\$ 33,202	111.6%	\$ 30,834
2011-12	91,932	40.4%	85,597
2012-13	92,297	46.1%	135,379

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$580,062, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$580,062 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$26,719,714 for the 2012-13 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.2 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

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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, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2013, and the College's 2012-13 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, an inflation rate of 3 percent per year, an annual healthcare cost trend rate of 9.5 percent pre-Medicare and 7.5 percent Medicare for the 2012-13 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 6 years pre-Medicare and 5 years Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over 30 years on an open basis. The remaining amortization period at June 30, 2013 was 24 years.

11. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the College are eligible to enroll as members of the State-administered Florida Retirement System (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. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of both Plans 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.

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 employer. An employee may participate in DROP for a period not to exceed 60 months after electing to

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participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

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. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service for employer contributions and vest fully and immediately for employee contributions.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Senior Management Service	3.00	6.30
Florida Retirement System, Special Risk	3.00	14.90
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	5.44
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

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

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions including employee contributions for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$1,909,135, \$1,365,094, and \$1,584,077 respectively, which were equal to the required contributions for each fiscal year.

There were 247 College participants in the Investment Plan during the 2012-13 fiscal year. The College’s contributions including employee contributions to the Investment Plan totaled \$724,557, which was equal to the required contribution for the 2012-13 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State’s Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and

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other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

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 eight 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, on behalf of the participant, 5.64 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the 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.

There were 41 College participants during the 2012-13 fiscal year. The College's contributions to the Program totaled \$156,584 and employee contributions totaled \$88,844 for the 2012-13 fiscal year.

Senior Management Service Optional Local Annuity Program. Section 121.055, Florida Statutes, created the Senior Management Service Optional Local Annuity Program (Annuity Program) as an optional retirement program for College employees that are members of the FRS Senior Management Service Class.

The Annuity 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. College employees in eligible positions make an irrevocable election to participate in the Annuity Program in lieu of the Senior Management Service Class of the FRS, and purchase retirement and death benefits through contracts with participating provider companies. The College contributes 14 percent of the employee's salary. Additionally, the employee may contribute, by salary reduction, an additional amount not to exceed the percentage contributed by the College. These contributions are invested in the companies selected by the employee to create a fund for the purchase of annuities at retirement.

As of June 30, 2013, eight College employees opted to participate in the Local Annuity Program. The College's contributions to the Annuity Program totaled \$106,854 for the 2012-13 fiscal year.

12. OTHER TERMINATION BENEFITS

The College provides an IRS approved Code Section 401(a) pre-tax program for termination pay that permits the College to disburse termination pay in a tax-advantaged manner for both the College and the employee. Contributions are limited by IRS regulation. All employees in designated employee classes with at least 10 years of service at the time of separation are mandated to participate in this program. The College deferred \$415,943 in salaries for 25 employees during the 2012-13 fiscal year for other termination benefits.

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13. SAVINGS INCENTIVE PLAN

Effective January 1, 1994, the Board approved a Savings Incentive Plan as provided by Section 403(b) of the Internal Revenue Code of 1986. Under the Plan, all full-time employees can elect to defer a portion of their salary within Internal Revenue Service guidelines. The College may make a matching employer contribution in an amount to be determined annually by the Board at its discretion. During the 2012-13 fiscal year, the College matched one dollar for every dollar deferred by the employee up to the first 3 percent of employee compensation. Each employee is fully vested upon enrollment in the Plan, and is allowed to direct the investment of his or her account to any one of the various fund groups and insurance companies approved for investment by the College. During the 2012-13 fiscal year, the College contributed \$394,278 as matching funds under the Plan.

14. CONSTRUCTION COMMITMENTS

The College’s major construction commitments at June 30, 2013, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Lee Campus - Bldg G			
Construction	\$ 642,030	\$ 341,060	\$ 300,970
Architect	61,000	55,432	5,568
Direct Materials	5,502	2,525	2,977
Total	708,532	399,017	309,515
Lee Campus - Bldg L			
Construction	865,154	446,655	418,499
Architect	23,300	16,837	6,463
Direct Materials	111,840	40,040	71,800
Total	1,000,294	503,532	496,762
Lee Campus - BBM PAH			
Construction	534,395	49,000	485,395
Architect	38,500	30,800	7,700
Direct Materials	530,431		530,431
Total	1,103,326	79,800	1,023,526
Lee Campus - Minor Projects			
Construction	464,248	242,930	221,318
Architect	48,500	42,287	6,213
Direct Materials	147,620	825	146,795
Total	660,368	286,042	374,326
Collier Campus - Bldg A			
Construction	819,286	806,527	12,759
Architect	55,552	55,552	
Direct Materials	55,310	50,560	4,750
Total	930,148	912,639	17,509
Total	\$ 4,402,668	\$ 2,181,030	\$ 2,221,638

15. OPERATING LEASE COMMITMENTS

The College rents office equipment and computers under operating leases, which expire on various dates through the year 2016. These leased assets and the related commitments are not reported on the College’s statement of net

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JUNE 30, 2013**

position. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for these noncancelable operating leases are as follows:

Fiscal Year Ending June 30	Amount
2014	\$ 117,486
2015	46,306
2016	7,654
Total Minimum Payments Required	\$ 171,446

16. 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 is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$90 million to February 28, 2013, and up to \$125 million from March 1, 2013. 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 three fiscal years.

The Financing Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. General liability, property, and flood insurance coverage were increased in the current fiscal year as a result of the student housing project being completed. Settlement claims have not exceeded commercial coverage in any of the last three fiscal years.

17. 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:

**EDISON STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Functional Classification	Amount
Instruction	\$ 29,702,912
Public Services	476,318
Academic Support	6,454,057
Student Services	8,519,261
Institutional Support	14,094,581
Operation and Maintenance of Plant	10,022,753
Scholarships and Waivers	12,301,836
Depreciation	7,059,199
Auxiliary Enterprises	2,284,236
Total Operating Expenses	\$ 90,915,153

18. BLENDED COMPONENT UNIT

The College has one blended component unit as discussed in note 1. The following financial information is presented for the College’s blended component unit:

Condensed Statement of Net Position

	Edison State College Financing Corporation	College	Eliminations	Total Primary Government
Assets				
Current Assets	\$ 1,651,900	\$ 23,750,639	\$ (174,638)	\$ 25,227,901
Capital Assets, Net	21,459,832	134,606,651		156,066,483
Other Noncurrent Assets	8,146,408	15,106,266		23,252,674
Total Assets	31,258,140	173,463,556	(174,638)	204,547,058
Deferred Outflows of Resources	2,300,988			2,300,988
Liabilities				
Current Liabilities	987,626	4,371,484	(174,638)	5,184,472
Noncurrent Liabilities	27,427,669	18,885,930		46,313,599
Total Liabilities	28,415,295	23,257,414	(174,638)	51,498,071
Net Position				
Net Investment in Capital Assets	(1,567,507)	118,466,648		116,899,141
Restricted - Nonexpendable		751,249		751,249
Restricted - Expendable	2,321,001	18,816,150		21,137,151
Unrestricted	4,390,339	12,172,095		16,562,434
Total Net Position	\$ 5,143,833	\$ 150,206,142	\$	\$ 155,349,975

EDISON STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

	Edison State College Financing Corporation	College	Eliminations	Total Primary Government
Operating Revenues	\$ 1,471,563	\$ 22,245,445	\$	\$ 23,717,008
Depreciation Expense	(390,707)	(6,668,492)		(7,059,199)
Other Operating Expenses	(2,380,453)	(81,475,501)		(83,855,954)
Operating Loss	<u>(1,299,597)</u>	<u>(65,898,548)</u>		<u>(67,198,145)</u>
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	714,308	58,899,503	(45,919)	59,567,892
Interest Expense	(660,247)	(688,219)		(1,348,466)
Other Nonoperating Expense	(45,919)		45,919	
Net Nonoperating Revenues	<u>8,142</u>	<u>58,211,284</u>		<u>58,219,426</u>
Other Revenues, Expenses, Gains, and Losses		5,242,119		5,242,119
Decrease in Net Position	<u>(1,291,455)</u>	<u>(2,445,145)</u>		<u>(3,736,600)</u>
Net Position, Beginning of Year	6,435,288	152,651,287		159,086,575
Net Position, End of Year	<u>\$ 5,143,833</u>	<u>\$ 150,206,142</u>	<u>\$</u>	<u>\$ 155,349,975</u>

Condensed Statement of Cash Flows

	Edison State College Financing Corporation	College	Eliminations	Total Primary Government
Net Cash Provided (Used) by:				
Operating Activities	\$ (721,290)	\$ (59,762,447)	\$	\$ (60,483,737)
Noncapital Financing Activities	744,955	58,220,460		58,965,415
Capital and Related Financing Activities	2,141,720	692,726		2,834,446
Investing Activities	850,544	870,527		1,721,071
Net Increase in Cash and Cash Equivalents	3,015,929	21,266		3,037,195
Cash and Cash Equivalents, Beginning of Year	802,892	16,324,357		17,127,249
Cash and Cash Equivalents, End of Year	<u>\$ 3,818,821</u>	<u>\$ 16,345,623</u>	<u>\$</u>	<u>\$ 20,164,444</u>

**EDISON STATE COLLEGE
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]
7/1/2007	\$	\$ 229,158	\$ 229,158	0%	\$ 23,249,339	1.0%
7/1/2009		421,101	421,101	0%	25,684,249	1.6%
7/1/2011		580,062	580,062	0%	25,052,174	2.3%

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

**EDISON STATE COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2011, unfunded actuarial accrued liability of \$580,062 was significantly higher than the July 1, 2009, liability of \$421,101 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, including a change to the methodology used to relate healthcare costs between ages.
- 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.



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

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

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Edison 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, 2013, 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 24, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the blended and discretely presented component units, 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to College management in our operational audit report No. 2014-012.

Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is solely to describe the scope of our testing of internal control and compliance and the result 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,



David W. Martin, CPA
Tallahassee, Florida
March 24, 2014