

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

EASTERN FLORIDA STATE COLLEGE

For the Fiscal Year Ended
June 30, 2015



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2014-15 fiscal year, Dr. James H. Richey served as President, and the following individuals served as Members of the Board of Trustees:

Stephen G. Charpentier, ^a Chair from 8-18-14,
Vice Chair to 8-17-14

Alan H. Landman, Vice Chair from 8-18-14,
Chair to 8-17-14

Myra Igo Haley ^b

Dewey L. Harris ^b

Moses L. Harvin, Sr. ^a

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

^b Board member served beyond the end of term,
May 31, 2014, until reappointed, August 5, 2014.

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

The team leader was Jeffrey M. Brizendine, CPA, and the audit was supervised by Brenda C. Racis, CPA.

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

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

AUDIT OBJECTIVES AND SCOPE

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

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

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

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the College are included in our report No. 2016-084.

AUDIT METHODOLOGY

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



Sherrill F. Norman, CPA
Auditor General

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

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

Emphasis of Matter

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

Other Matter

Required Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

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

Respectfully submitted,



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

The College's assets totaled \$151.2 million at June 30, 2015. This balance reflects a \$2.3 million, or 1.5 percent, decrease from the 2013-14 fiscal year, mainly resulting from a lesser amount due from the State for Public Education Capital Outlay (PECO) appropriations. While assets declined, liabilities increased by \$18 million, or 87.1 percent, totaling \$38.7 million at June 30, 2015, compared to \$20.7 million at June 30, 2014. The increases in liabilities, deferred outflows and inflows of resources were largely impacted by the adoption of Governmental Accounting Standards Board's (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. This accounting standard requires the College, as a participating employer in the Florida Retirement System (FRS), to recognize its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. Changes in liabilities are recognized through the Statement of Revenues, Expenses, and Changes in Net Position, or reported as deferred outflows or inflows of resources on the Statement of Net Position, depending on the nature of the change. The initial adoption resulted in an adjustment to beginning net position of \$27 million.

The College's operating revenues totaled \$28.6 million for the 2014-15 fiscal year, representing an 8.4 percent increase as compared to the 2013-14 fiscal year, due mainly to an increase in Federal, State, and nongovernmental grants and contracts. Operating expenses totaled \$110.3 million for the 2014-15 fiscal year, representing a decrease of 0.9 percent as compared to the 2013-14 fiscal year due mainly to reductions in personnel costs and in expenses for materials and supplies.

Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College had a deficit in the unrestricted net position of \$16.7 million resulting from recording long-term liabilities within the annually funded operational fund as required by *Government Accounting Standards*. The following table detailing the components of the College's ending net position demonstrates that the College's negative unrestricted net position was caused by long-term liabilities that will be paid over time and financed by future appropriations. The College's unencumbered balance in the general fund as of June 30, 2015, was 10 percent of total funds available, which exceeded the 5 percent minimum balance as required by Florida Statutes.

Unrestricted Net Position: College

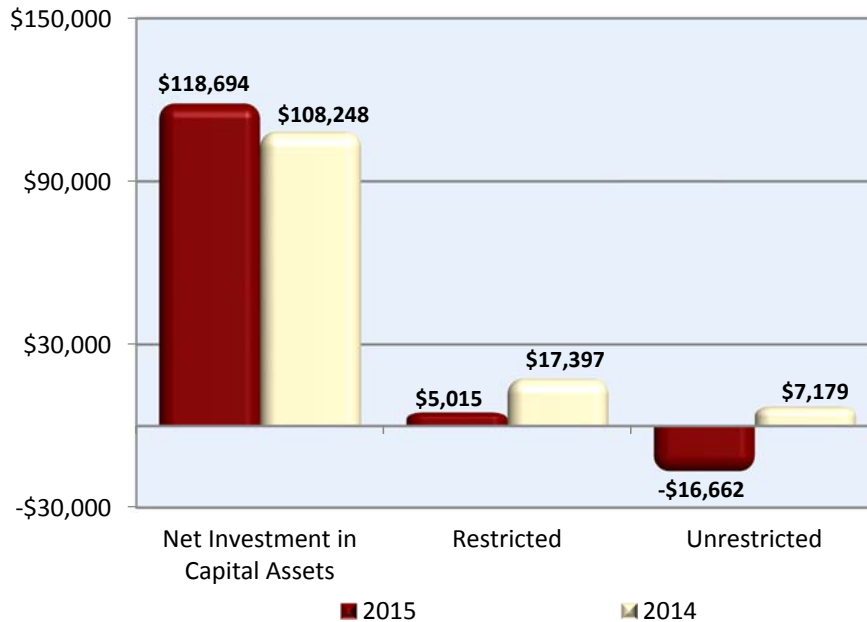
(In Thousands)

		<u>Amount (In Thousands)</u>
Unrestricted Fund Balance		\$ 18,508
Amount to be Financed in the Future		
Compensated Absences Liability	\$ 9,489	
Deferred Outflows of Resources	(6,555)	
Deferred Inflows of Resources	11,958	
FRS Net Pension Liability	6,851	
HRS Net Pension Liability	13,427	
Total Amount to be Financed in the Future		35,170
Ending Unrestricted Net Position		\$ (16,662)

The College's comparative total net position by category for the fiscal years ended June 30, 2015, and June 30, 2014, is shown in the following graph:

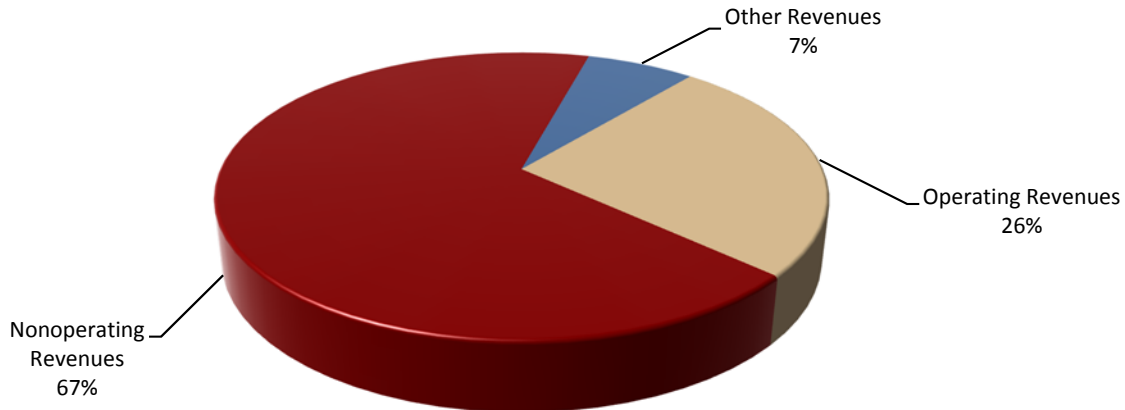
Net Position: College

(In Thousands)



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

Total Revenues: College



OVERVIEW OF FINANCIAL STATEMENTS

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

- Eastern Florida 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.
- Eastern Florida State College Foundation, Inc. (Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida.

The Statement of Net Position

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

A condensed statement of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the College and its component unit as of June 30, 2015, and June 30, 2014, is shown in the following table:

Condensed Statement of Net Position at

(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	6-30-15	6-30-14
Assets				
Current Assets	\$ 29,224	\$ 39,820	\$ 760	\$ 645
Capital Assets, Net	120,404	110,566	190	192
Other Noncurrent Assets	1,552	3,141	19,134	18,534
Total Assets	151,180	153,527	20,084	19,371
Deferred Outflows of Resources	6,554	-	-	-
Liabilities				
Current Liabilities	7,768	9,225	16	14
Noncurrent Liabilities	30,962	11,478	-	-
Total Liabilities	38,730	20,703	16	14
Deferred Inflows of Resources	11,957	-	-	-
Net Position				
Net Investment in Capital Assets	118,694	108,248	190	192
Restricted	5,015	17,397	17,749	17,010
Unrestricted	(16,662)	7,179	2,129	2,155
Total Net Position	\$ 107,047	\$ 132,824	\$ 20,068	\$ 19,357

The College's overall net position decreased by \$25.8 million or 19.4 percent, as a result of reporting deferred outflows of resources, deferred inflows of resources, and the net pension liability due to the implementation of GASB 68. More information on this reporting change can be found in Note 2 of the notes to financial statements.

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

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

The following summarizes the activities of the College and its component unit for the 2014-15 and 2013-14 fiscal years:

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

(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	6-30-15	6-30-14
Operating Revenues	\$ 28,582	\$ 26,372	\$ 114	\$ 97
Less, Operating Expenses	110,271	111,223	1,090	1,305
Operating Loss	(81,689)	(84,851)	(976)	(1,208)
Net Nonoperating Revenues	75,264	72,233	1,624	3,585
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(6,425)	(12,618)	648	2,377
Other Revenues, Expenses, Gains, or Losses	7,624	6,892	63	94
Net Increase (Decrease) In Net Position	1,199	(5,726)	711	2,471
Net Position, Beginning of Year	132,824	138,550	19,357	16,886
Adjustment to Beginning Net Position (1)	(26,976)	-	-	-
Net Position, Beginning of Year, as Restated	105,848	138,550	19,357	16,886
Net Position, End of Year	<u>\$ 107,047</u>	<u>\$ 132,824</u>	<u>\$ 20,068</u>	<u>\$ 19,357</u>

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

Operating Revenues

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

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

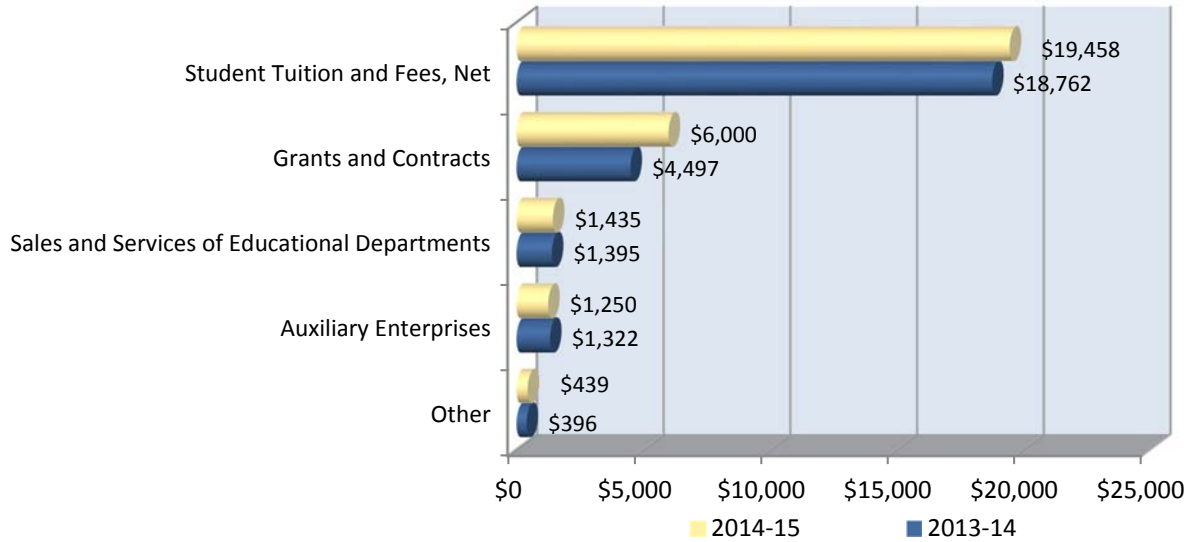
**Operating Revenues, Expenses, Gains, or Losses
For the Fiscal Years Ended**

(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	6-30-15	6-30-14
Student Tuition and Fees, Net	\$ 19,458	\$ 18,762	\$ -	\$ -
Grants and Contracts	6,000	4,497	-	-
Sales and Services of Educational Departments	1,435	1,395	-	-
Auxiliary Enterprises	1,250	1,322	-	-
Other	439	396	114	97
Total Operating Revenues	<u>\$ 28,582</u>	<u>\$ 26,372</u>	<u>\$ 114</u>	<u>\$ 97</u>

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

Operating Revenues: College
(In Thousands)



College operating revenue increased by \$2.2 million, or 8.4 percent, primarily due to an increase in grants and contracts of \$1.5 million, or 33.4 percent, comprised of Federal, State, and nongovernmental grants and contracts.

Operating Expenses

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

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

**Operating Expenses
For the Fiscal Years Ended**

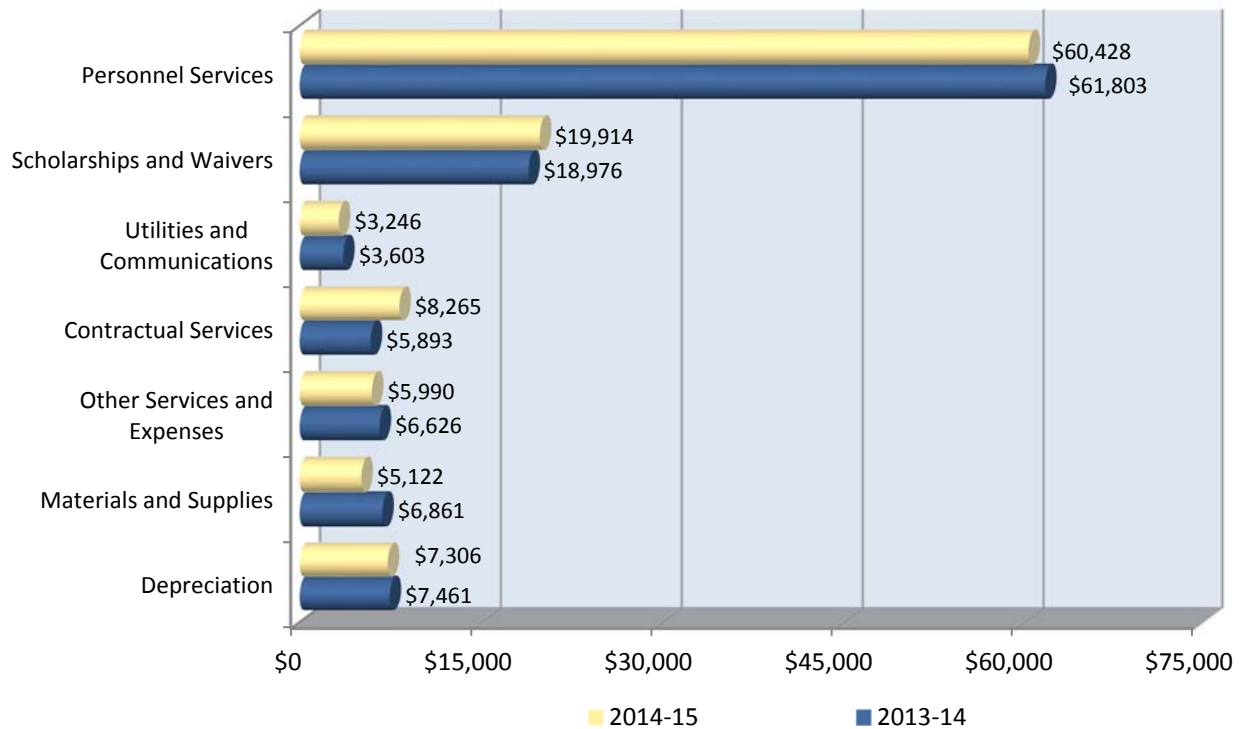
(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	6-30-15	6-30-14
Personnel Services	\$ 60,428	\$ 61,803	\$ 51	\$ 8
Scholarships and Waivers	19,914	18,976	563	515
Utilities and Communications	3,246	3,603	-	1
Contractual Services	8,265	5,893	256	586
Other Services and Expenses	5,990	6,626	191	159
Materials and Supplies	5,122	6,861	27	34
Depreciation	7,306	7,461	2	2
Total Operating Expenses	\$ 110,271	\$ 111,223	\$ 1,090	\$ 1,305

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

Operating Expenses: College

(In Thousands)



College overall operating expenses decreased by \$1 million, or 0.9 percent, primarily due to the following factors:

- Personnel Services decreased \$1.4 million due to the outsourcing of campus security staff.
- Materials and Supplies decreased by \$1.7 million due to the College's cost saving initiative.
- Utilities and Other Services and Expenses decreased by \$1 million.

- Contractual Services increased \$2.4 million due to the outsourcing of campus security staff and an increase in the amount of the custodial contract.
- Scholarships and Waivers increased \$0.9 million due to a decrease in the scholarship allowance and an increase in Federal awards that students received.

Nonoperating Revenues and Expenses

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

Nonoperating Revenues (Expenses): College		
(In Thousands)		
	2014-15	2013-14
State Noncapital Appropriations	\$ 42,861	\$ 41,153
Federal and State Student Financial Aid	29,631	29,550
Gifts and Grants	2,839	1,610
Investment Income	10	24
Other Nonoperating Revenues	30	18
Loss on Disposal of Capital Assets	(11)	(7)
Interest on Capital Asset-Related Debt	(96)	(115)
Net Nonoperating Revenues	\$ 75,264	\$ 72,233

College nonoperating revenues changes were due to an increase in State noncapital appropriations of \$1.7 million, or 4.2 percent, an increase in Federal and State student financial aid of \$81 thousand, or 0.3 percent, and an increase in gifts and grants of \$1.2 million or 76.3 percent, offset by a decrease in interest on capital asset-related debt of \$19 thousand or 16.5 percent.

Other Revenues, Expenses, Gains, or Losses

This category is mainly 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 2014-15 and 2013-14 fiscal years:

Other Revenues, Expenses, Gains, or Losses: College		
(In Thousands)		
	2014-15	2013-14
State Capital Appropriations	\$ 3,754	\$ 2,784
Capital Grants, Contracts, Gifts, and Fees	3,870	4,108
Total	\$ 7,624	\$ 6,892

Other revenues increased by \$732 thousand, or 10.6 percent, primarily due to an increase in State capital appropriations.

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. 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 to 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 2014-15 and 2013-14 fiscal years:

Condensed Statement of Cash Flows: College

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
Cash Provided (Used) by:		
Operating Activities	\$ (75,319)	\$ (76,471)
Noncapital Financing Activities	75,461	72,758
Capital and Related Financing Activities	(775)	507
Investing Activities	76	200
	<u> </u>	<u> </u>
Net Decrease in Cash and Cash Equivalents	(557)	(3,006)
Cash and Cash Equivalents, Beginning of Year	25,940	28,946
	<u> </u>	<u> </u>
Cash and Cash Equivalents, End of Year	<u>\$ 25,383</u>	<u>\$ 25,940</u>

Major sources of funds came from State noncapital appropriations (\$42.9 million), Federal and State student financial aid (\$29.6 million), Federal Direct Student Loan program receipts (\$24.3 million), and net student tuition and fees (\$19.6 million). Major uses of funds were for payments to employees and employee benefits (\$61.2 million), disbursements to students for Federal Direct Student Loans (\$24.4 million), payments for scholarships (\$19.9 million), and payments to providers of goods and services (\$19.6 million).

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the College had \$249.3 million in capital assets, less accumulated depreciation of \$128.9 million, for net capital assets of \$120.4 million. Depreciation charges for the current fiscal year totaled \$7.3 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30: College

(In Thousands)

<u>Capital Assets</u>	<u>2015</u>	<u>2014</u>
Land	\$ 6,857	\$ 6,857
Construction in Progress	17,548	8,092
Buildings	84,307	86,662
Other Structures and Improvements	6,753	5,202
Furniture, Machinery, and Equipment	3,175	1,761
Assets Under Capital Leases	1,764	1,992
Capital Assets, Net	<u>\$120,404</u>	<u>\$110,566</u>

Additional information about the College's capital assets is presented in Note 8 of the notes to financial statements.

Capital Expenses and Commitments

Major capital expenses through June 30, 2015, were incurred on the Melbourne Campus Public Safety Institute (\$9.9 million). The College's construction commitments at June 30, 2015, are as follows:

	<u>Amount</u> <u>(In Thousands)</u>
Total Committed	\$ 12,992
Completed to Date	<u>9,899</u>
Balance Committed	<u>\$ 3,093</u>

Additional information about the College's construction commitments is presented in Note 13 of the notes to financial statements.

Debt Administration

As of June 30, 2015, the College had \$1.7 million in long-term debt outstanding. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30, 2015, and June 30, 2014:

Long-Term Debt, at June 30: College

(In Thousands)

	<u>2015</u>	<u>2014</u>
SBE Capital Outlay Bonds	\$ 163	\$ 435
Capital Leases	<u>1,547</u>	<u>1,883</u>
Total	<u>\$ 1,710</u>	<u>\$ 2,318</u>

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2014-15 fiscal year, the SBE issued \$129.9 million of the SBE Capital Outlay Bonds, Series 2014B. Proceeds from the College's portion of the bonds, \$163 thousand, was used to refund the \$175 thousand of outstanding SBE Capital Outlay Bonds, Series 2005A and 2005B. Debt reductions during the

2014-15 fiscal year for bonds totaled \$435 thousand and for capital leases \$851 thousand. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. The College's State capital appropriations were increased by \$17 million for the 2015-16 fiscal year for the construction of a Health Sciences building on the Melbourne campus. The College's State noncapital appropriations were also increased by \$0.8 million. With the increase in State funding and support for the dual enrollment programs by the Brevard Public Schools, the Board of Trustees elected again to continue the 2011-2012 fiscal year tuition rates into the 2015-16 fiscal year. The College's current financial and capital plans indicate that the resources from cost savings and increased efficiencies will enable it to maintain consistent services over the coming year.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Chief Financial Officer, Eastern Florida State College, 1519 Clearlake Road, Cocoa, Florida 32922.

BASIC FINANCIAL STATEMENTS

**Eastern Florida State College
A Component Unit of the State of Florida
Statement of Net Position**

June 30, 2015

	<u>College</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 19,992,078	\$ 722,485
Restricted Cash and Cash Equivalents	3,844,050	-
Accounts Receivable, Net	1,657,582	15,723
Due from Other Governmental Agencies	3,564,925	-
Inventories	126,974	-
Prepaid Expenses	13,266	-
Deposits	24,896	-
Other Assets	-	22,094
Total Current Assets	<u>29,223,771</u>	<u>760,302</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,547,296	-
Investments	-	19,133,892
Restricted Investments	4,921	-
Depreciable Capital Assets, Net	95,999,775	14,557
Nondepreciable Capital Assets	24,403,953	174,984
Total Noncurrent Assets	<u>121,955,945</u>	<u>19,323,433</u>
TOTAL ASSETS	<u>151,179,716</u>	<u>20,083,735</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	6,554,667	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>6,554,667</u>	<u>-</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,841,804	15,583
Salary and Payroll Taxes Payable	2,668,415	-
Retainage Payable	32,344	-
Unearned Revenue	42,513	-
Estimated Insurance Claims Payable	129,886	-
Deposits Held for Others	1,451,004	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	62,000	-
Capital Leases Payable	896,633	-
Compensated Absences Payable	192,374	-
Net Pension Liability	450,745	-
Total Current Liabilities	<u>7,767,718</u>	<u>15,583</u>

**Eastern Florida State College
A Component Unit of the State of Florida
Statement of Net Position (Continued)**

June 30, 2015

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	\$ 101,000	\$ -
Capital Leases Payable	649,948	-
Special Termination Benefits Payable	645,364	-
Compensated Absences Payable	9,296,982	-
Other Postemployment Benefits Payable	441,940	-
Net Pension Liability	19,826,783	-
Total Noncurrent Liabilities	30,962,017	-
TOTAL LIABILITIES	38,729,735	15,583
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	11,957,427	-
TOTAL DEFERRED INFLOWS OF RESOURCES	11,957,427	-
NET POSITION		
Net Investment in Capital Assets	118,694,147	189,541
Restricted:		
Nonexpendable:		
Endowment	-	10,140,290
Expendable:		
Grants and Loans	255,574	1,143,131
Scholarships	9,570	6,465,583
Capital Projects	4,744,803	-
Debt Service	4,921	-
Unrestricted	(16,661,794)	2,129,607
TOTAL NET POSITION	\$ 107,047,221	\$ 20,068,152

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

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

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$10,687,299	\$ 19,458,328	\$ -
Federal Grants and Contracts	3,516,567	-
State and Local Grants and Contracts	2,099,592	-
Nongovernmental Grants and Contracts	382,883	-
Sales and Services of Educational Departments	1,435,396	-
Auxiliary Enterprises	1,249,522	-
Other Operating Revenues	439,293	114,047
Total Operating Revenues	28,581,581	114,047
EXPENSES		
Operating Expenses:		
Personnel Services	60,428,400	51,523
Scholarships and Waivers	19,914,409	563,226
Utilities and Communications	3,245,409	318
Contractual Services	8,265,198	255,785
Other Services and Expenses	5,989,764	190,565
Materials and Supplies	5,121,865	27,063
Depreciation	7,305,858	1,960
Total Operating Expenses	110,270,903	1,090,440
Operating Loss	(81,689,322)	(976,393)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	42,861,043	-
Federal and State Student Financial Aid	29,630,867	-
Gifts and Grants	2,839,437	811,806
Investment Income	9,778	705,035
Other Nonoperating Revenues	30,073	107,355
Loss on Disposal of Capital Assets	(11,332)	-
Interest on Capital Asset-Related Debt	(95,581)	-
Net Nonoperating Revenues	75,264,285	1,624,196
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(6,425,037)	647,803
State Capital Appropriations	3,753,952	-
Capital Grants, Contracts, Gifts, and Fees	3,870,318	-
Additions to Endowments	-	63,305
Total Other Revenues	7,624,270	63,305
Increase in Net Position	1,199,233	711,108
Net Position, Beginning of Year	132,823,502	19,357,044
Adjustment to Beginning Net Position	(26,975,514)	-
Net Position, Beginning of Year, as Restated	105,847,988	19,357,044
Net Position, End of Year	\$ 107,047,221	\$ 20,068,152

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

**Eastern Florida State College
A Component Unit of the State of Florida
Statement of Cash Flows**

For the Fiscal Year Ended June 30, 2015

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 19,559,180
Grants and Contracts	5,926,396
Payments to Suppliers	(19,554,299)
Payments for Utilities and Communications	(3,272,590)
Payments to Employees	(49,237,930)
Payments for Employee Benefits	(11,957,468)
Payments for Scholarships	(19,939,412)
Auxiliary Enterprises	1,249,522
Sales and Services of Educational Departments	1,435,396
Other Receipts	472,467
	(75,318,738)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	42,861,043
Federal and State Student Financial Aid	29,630,867
Federal Direct Loan Program Receipts	24,349,433
Federal Direct Loan Program Disbursements	(24,351,761)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	2,848,400
Other Nonoperating Receipts	122,767
	75,460,749
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	14,338,378
Capital Grants and Gifts	3,820,565
Proceeds from Sale of Capital Assets	15,687
Purchases of Capital Assets	(17,743,436)
Principal Paid on Capital Debt and Leases	(1,110,580)
Interest Paid on Capital Debt and Leases	(95,581)
	(774,967)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	69,373
Investment Income	7,261
	76,634
Net Cash Provided by Investing Activities	76,634
Net Decrease in Cash and Cash Equivalents	(556,322)
Cash and Cash Equivalents, Beginning of Year	25,939,746
Cash and Cash Equivalents, End of Year	\$ 25,383,424

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

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (81,689,322)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	7,305,858
Changes in Assets, Liabilities, Deferred Outflows of Resources	
and Deferred Inflows of Resources:	
Receivables, Net	205,196
Due from Other Governmental Agencies	792,424
Inventories	(5,722)
Prepaid Expenses	1,749
Deposits	(480)
Accounts Payable	(88,227)
Salaries and Payroll Taxes Payable	212,304
Unearned Revenue	(973,019)
Special Termination Benefits Payable	136,565
Compensated Absences Payable	19,130
Other Postemployment Benefits Payable	60,032
Net Pension Liability	(9,649,290)
Deferred Outflows of Resources Related to Pensions	(3,603,363)
Deferred Inflows of Resources Related to Pensions	11,957,427
NET CASH USED BY OPERATING ACTIVITIES	\$ (75,318,738)

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

Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows. \$ 2,517

Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows. \$ (11,332)

The State Board of Education (SBE) issued \$163,000 Series 2014B Bonds, to refund \$175,000 Series 2005A and 2005B Bonds. The new debt and defeasance of the old debt were recorded as an increase and a decrease, respectively, to bonds payable on the statement of net position; however, because the proceeds of the new debt were immediately placed into an irrevocable trust for the defeasance of the old debt, the transaction did not affect cash and cash equivalents. \$ 12,000

The College entered into a new capital lease, which was recognized on the statement of net position, but is not a cash transaction for the statement of cash flows. \$ 513,717

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

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

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

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public and can be obtained from the Chief Financial Officer, Eastern Florida State College, 1519 Clearlake Road, Cocoa, Florida 32922. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2015.

Basis of Presentation. The College's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the College with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public colleges various reporting options. The College has elected to report as an entity engaged in only

business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

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

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

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

The College's principal operating activity is instruction. Operating revenues and expenses generally include all fiscal transactions directly related to instruction as well as administration, academic support, student services, physical plant operations, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, investment income (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 difference between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College 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. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and other short-term money market investments. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida’s multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2015, the College reported as cash equivalents at fair value \$10,864,306 of moneys held in the Funds for Institutions (FFI) Government Fund. The FFI Government Fund is a money market mutual fund, managed by an investment advisor that is subject to all of the requirements of Rule 2a7 under the Investment Company Act of 1940, as amended. The FFI Government Fund 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, 2015. A portfolio’s WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the FFI Government Fund to interest rate changes.

At June 30, 2015, the College reported as cash equivalents \$5,468,779 that were on deposit in a bank deposit program account with an investment firm and held in two separate banks. The deposits in this account were insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and at June 30, 2015, funds totaling \$4,972,775 were uninsured. On January 26, 2016, the College moved all funds in the bank deposit program into the FFI Government Fund.

Capital Assets. College capital assets consist of land; construction in progress; buildings; other structures and improvements; furniture, machinery, and equipment; and assets under capital leases. 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
- Special Use Industrial Building – 20 years
- Modular Buildings – 10 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 to 10 years
- Assets Under Capital Leases – 5 to 10 years

Land, buildings, and equipment of the College's component unit, the Eastern Florida State College Foundation, Inc., are stated at cost except for donated property which is stated at fair market value at the date of donations, and is net of accumulated depreciation of \$104,086. The College's component unit depreciates buildings and equipment using the straight-line method or double-declining balance over estimated useful lives ranging from 5 to 39 years.

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

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

2. Reporting Change

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

3. Adjustment to Beginning Net Position

The beginning net position of the College, was decreased by \$26,975,514 due to the adoption of a new GASB pronouncement, Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 requires the College to recognize its proportionate share of the net pension liabilities and related pension amounts of the cost-sharing multiple-employer FRS and HIS defined benefit plans.

4. Deficit Net Position in Individual Funds

The College reported an unrestricted net position, which included a deficit in the current funds-unrestricted net position as shown below. This deficit can be attributed to the full recognition of

long-term liabilities (i.e., special termination benefits payable, compensated absences payable, other postemployment benefits payable, and net pension liabilities) in the current unrestricted funds.

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (26,806,347)
Auxiliary Funds	10,144,553
Total	\$ (16,661,794)

5. Investments

The Board of Trustees had not adopted a written investment policy. Therefore, pursuant to Section 218.415(17), Florida Statutes, the College is authorized to invest in the Florida PRIME investment pool, administered by the State Board of Administration (SBA); Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; and direct obligations of the United States Treasury.

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

State Board of Administration Debt Service Accounts

The College reported investments totaling \$4,921 at June 30, 2015, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk and 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.

Component Unit Investments

Investments held by the College's component unit (Foundation) at June 30, 2015, are reported at fair value and based on quoted market prices as follows:

<u>Investment Type</u>	<u>Amount</u>
Corporate Stock	\$ 3,956,862
Foreign Stock	1,638,288
Mutual Funds	12,315,302
Alternative Investments	1,223,440
Total Component Unit Investments	\$ 19,133,892

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

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy limits interest rate risk by requiring that investments maturities shall not be greater than 15 years at time of purchase.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's investment policy limits their investment portfolio to have an average credit rating of "A" or better for bonds.

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Foundation will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The Foundation's investment policy does not contain requirements that would limit exposure to custodial credit risk for investments. The Foundation's alternative investments are not covered by Securities Investor Protection Corporation (SIPC) insurance, are uncollateralized, and held by the Foundation's broker-dealer (counterparty); therefore, the balance of \$1,223,440 is subject to custodial credit risk. The Foundation's remaining investments are covered by SIPC insurance.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Foundation's investment in a single issue. The Foundation's policy does not allow for an investment in any single equity position greater than 10 percent of the Foundation's total equity portfolio. The Foundation's investment policy does not address concentration of credit risk with respect to fixed income investments.

6. Accounts Receivable

Accounts receivable represent amounts for student fee deferments, various student services provided by the College (\$2,230,553), uncollected commissions for child care services (\$3,793), and contract and grant reimbursements due from third parties (\$21,054). These receivables are reported net of a \$597,818 allowance for doubtful accounts.

7. Due From Other Governmental Agencies

This amount consists of Public Education Capital Outlay allocations due from the State for construction of College facilities (\$3,186,571); amounts due for various State and Federal student tuition contracts (\$121,195); and amounts due for various State and Federal grants (\$257,159).

8. Capital Assets

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 6,856,466	\$ -	\$ -	\$ 6,856,466
Construction in Progress	8,091,703	14,471,178	5,015,394	17,547,487
Total Nondepreciable Capital Assets	\$ 14,948,169	\$ 14,471,178	\$ 5,015,394	\$ 24,403,953
Depreciable Capital Assets:				
Buildings	\$ 165,159,718	\$ 2,176,208	\$ -	\$ 167,335,926
Other Structures and Improvements	31,652,267	2,839,186	-	34,491,453
Furniture, Machinery, and Equipment	17,567,573	2,169,865	660,045	19,077,393
Assets Under Capital Leases	3,453,482	513,717	-	3,967,199
Total Depreciable Capital Assets	217,833,040	7,698,976	660,045	224,871,971
Less, Accumulated Depreciation:				
Buildings	78,497,766	4,530,792	-	83,028,558
Other Structures and Improvements	26,449,564	1,288,787	-	27,738,351
Furniture, Machinery, and Equipment	15,806,550	744,211	648,713	15,902,048
Assets Under Capital Leases	1,461,171	742,068	-	2,203,239
Total Accumulated Depreciation	122,215,051	7,305,858	648,713	128,872,196
Total Depreciable Capital Assets, Net	\$ 95,617,989	\$ 393,118	\$ 11,332	\$ 95,999,775

9. Unearned Revenue

Unearned revenue primarily consists of restricted grants and contracts received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2015, the College reported unearned revenue in the amount of \$42,513.

10. Long-Term Liabilities

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 435,000	\$ 163,000	\$ 435,000	\$ 163,000	\$ 62,000
Capital Leases Payable	1,883,444	513,717	850,580	1,546,581	896,633
Special Termination					
Benefits Payable	508,799	159,314	22,749	645,364	-
Compensated Absences Payable	9,470,226	735,215	716,085	9,489,356	192,374
Other Postemployment					
Benefits Payable	381,908	122,552	62,520	441,940	-
Net Pension Liability (1)	29,926,818	5,259,441	14,908,731	20,277,528	450,745
Total Long-Term Liabilities	\$ 42,606,195	\$ 6,953,239	\$ 16,995,665	\$ 32,563,769	\$ 1,601,752

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

Bonds Payable. The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the

State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2015:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds: Series 2014B, Refunding	<u>\$ 163,000</u>	2.0 - 5.0	2020

On December 2, 2014, the SBE issued \$129,880,000 of SBE Capital Outlay Bonds, Series 2014B. The College's portion of the bonds, \$163,000, was used to call the remaining outstanding SBE Capital Outlay Bonds, Series 2005A and 2005B totaling \$175,000. The SBE Capital Outlay Bonds, Series 2005A and 2005B were called on January 1, 2015. As a result of the refunding, the College had a debt service savings of \$12,000 and obtained an economic gain of \$14,425.

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

<u>Fiscal Year Ending June 30</u>	<u>SBE Capital Outlay Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 62,000	\$ 8,645	\$ 70,645
2017	49,000	4,900	53,900
2018	42,000	2,450	44,450
2019	5,000	350	5,350
2020	5,000	100	5,100
Total	<u>\$ 163,000</u>	<u>\$ 16,445</u>	<u>\$ 179,445</u>

Capital Leases Payable. Information technology equipment, digital press equipment, and security golf cars in the amount of \$3,967,197 are being acquired under capital lease agreements. The stated interest rates are 3.311, 3.5, 4.35 and 5.11 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2015, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 942,924
2017	442,294
2018	119,566
2019	105,962
2020	10,407
Total Minimum Payments	1,621,153
Less, Amount Representing Interest	74,572
Present Value of Minimum Payments	<u>\$ 1,546,581</u>

Special Termination Benefits Payable. The Board of Trustees adopted an Executive Benefit Plan for full Vice Presidents or above who are employed at the executive salary grade levels of II and III. The

Plan included provisions for deferred compensation to be paid to the employee upon separation of employment through retirement, termination, or death. Accrued benefits for the 11 participants at June 30, 2015, totaled \$645,364 and are included in special termination benefits payable.

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2015, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$9,489,356. The current portion of the compensated absences liability, \$192,374, is the amount expected to be paid in the coming fiscal year, and represents payments for employees in the final year of the Deferred Retirement Option Program or those known to be retiring during the next fiscal year.

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 College System Risk Management Consortium (Consortium).

Plan Description. The College contributes to an agent, multiple-employer, defined benefit plan (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 College's healthcare insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report 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 2014-15 fiscal year, 27 retirees received postemployment healthcare benefits. The College provided required contributions of \$62,520 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$168,759, which represents 0.4 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The College's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 80,188
Amortization of Unfunded Actuarial Accrued Liability	39,818
Annual Required Contribution	120,006
Interest on Net OPEB Obligation	15,276
Adjustment to Annual Required Contribution	(12,730)
Annual OPEB Cost (Expense)	122,552
Contribution Toward the OPEB Cost	(62,520)
Increase in Net OPEB Obligation	60,032
Net OPEB Obligation, Beginning of Year	381,908
Net OPEB Obligation, End of Year	<u>\$ 441,940</u>

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

<u>Fiscal Year</u>	Percentage of		
	<u>Annual</u>	<u>Annual</u>	<u>Net OPEB</u>
	<u>OPEB Cost</u>	<u>OPEB Cost</u>	<u>Obligation</u>
		<u>Contributed</u>	
2012-13	\$ 95,178	64.7%	\$ 305,502
2013-14	116,157	34.2%	381,908
2014-15	122,552	51.0%	441,940

Funded Status and Funding Progress. As of July 1, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$1,110,475 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,110,475 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$41,684,344 for the 2014-15 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.7 percent.

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

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

The College's OPEB actuarial valuation as of July 1, 2013, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2015, and the College's 2014-15 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year, an inflation rate of 3 percent per year, and an annual healthcare cost trend rate of 7.5 percent pre-Medicare and 6 percent Medicare for the 2014-15 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 3 years for pre-Medicare and 2 years for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2015, was 22 years.

11. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

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

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

The College's FRS and HIS pension expense totaled \$1,884,369 for the 2014-15 fiscal year.

FRS Pension Plan

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

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions.

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

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

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

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

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

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

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

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

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

The College's contributions to the Plan totaled \$2,647,551 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the College reported a liability of \$6,850,658 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The College's proportionate share of the net pension liability was based on the College's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the College's proportionate share was

0.112278807 percent, which was an increase of 0.011769269 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the College recognized pension expense of \$969,005. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 423,939
Change of assumptions	1,186,420	-
Net difference between projected and actual earnings on FRS pension plan investments	-	11,428,036
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	1,704,425	-
College FRS contributions subsequent to the measurement date	2,647,551	-
Total	<u>\$ 5,538,396</u>	<u>\$ 11,851,975</u>

The deferred outflows of resources related to pensions totaling \$2,647,551 resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ (2,391,555)
2017	(2,391,555)
2018	(2,391,555)
2019	(2,391,555)
2020	465,454
Thereafter	139,636
Total	<u>\$ (8,961,130)</u>

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

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.00%	3.11%	3.10%	1.65%
Intermediate-Term Bonds	18.00%	4.18%	4.05%	5.15%
High Yield Bonds	3.00%	6.79%	6.25%	10.95%
Broad US Equities	26.50%	8.51%	6.95%	18.90%
Developed Foreign Equities	21.20%	8.66%	6.85%	20.40%
Emerging Market Equities	5.30%	11.58%	7.60%	31.15%
Private Equity	6.00%	11.80%	8.11%	30.00%
Hedge Funds / Absolute Return	7.00%	5.81%	5.35%	10.00%
Real estate (Property)	12.00%	7.11%	6.35%	13.00%
Total	<u>100.00%</u>			
Assumed inflation - Mean		2.60%		2.00%

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

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

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

	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
College's proportionate share of the net pension liability	<u>\$ 29,301,176</u>	<u>\$ 6,850,658</u>	<u>\$ (11,823,888)</u>

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

Payables to the Pension Plan. At June 30, 2015, the College reported a payable of \$327,439 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2015.

HIS Pension Plan

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

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

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

The College's contributions to the HIS Plan totaled \$532,045 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the College reported a liability of \$13,426,870 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within one year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The College's proportionate share of the net pension liability was based on the College's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the College's proportionate share was 0.143599139 percent, which was a decrease of 0.001406566 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the College recognized pension expense of \$915,364. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change of assumptions	\$ 477,781	\$ -
Net difference between projected and actual earnings on HIS pension plan investments	6,445	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	-	105,452
College contributions subsequent to the measurement date	532,045	-
Total	<u>\$ 1,016,271</u>	<u>\$ 105,452</u>

The deferred outflows of resources totaling \$532,045 was related to pensions resulting from College contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 61,664
2017	61,664
2018	61,664
2019	61,664
2020	60,053
Thereafter	72,065
Total	<u>\$ 378,774</u>

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

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

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

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

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

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

	1% Decrease (3.29%)	Current Discount Rate (4.29%)	1% Increase (5.29%)
College's proportionate share of the net pension liability	<u>\$ 15,271,977</u>	<u>\$ 13,426,870</u>	<u>\$ 11,886,733</u>

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

Payables to the Pension Plan. At June 30, 2015, the College reported a payable of \$4,116 for the outstanding amount of contributions to the pension plan required for the fiscal year ended June 30, 2015.

12. Retirement Plans – Defined Contribution Pension Plans

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of Plan members. Allocations to the Investment Plan member accounts during the 2014-15 fiscal year were as follows:

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

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

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

The College's Investment Plan pension expense totaled \$778,560 for the fiscal year ended June 30, 2015.

13. Construction Commitments

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

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Public Safety Institute	<u>\$ 12,991,878</u>	<u>\$ 9,898,647</u>	<u>\$ 3,093,231</u>

14. Operating Lease Commitments

The College leased vehicles under an operating lease, which expires in 2020. These leased assets and the related commitments are not reported on the College's statement of net position. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from this lease agreement are contingent upon future appropriations. Future minimum lease commitments for this noncancelable operating lease are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 58,779
2017	44,017
2018	35,136
2019	20,341
2020	<u>18,581</u>
Total Minimum Payments Required	<u>\$ 176,854</u>

15. Risk Management Programs

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

Life, vision, and long-term disability coverage are provided through purchased commercial insurance.

16. Functional Distribution of Operating Expenses

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 35,431,246
Public Services	1,015,506
Academic Support	4,545,938
Student Services	10,197,812
Institutional Support	17,243,626
Operation and Maintenance of Plant	14,616,508
Scholarships and Waivers	19,914,409
Depreciation	7,305,858
Total Operating Expenses	<u><u>\$ 110,270,903</u></u>

17. Related Party Transactions

As permitted by Section 1004.70, Florida Statutes, the College receives direct and indirect support from a direct-support organization that does not meet the criteria, as discussed in Note 1, for inclusion in the College's financial statements as a component unit of the College. This organization is the Maxwell

C. King Center for the Performing Arts, Inc. Information for the direct-support organization based on its financial statements as of June 20, 2015, is summarized in the following table:

	Maxwell C. King Center for the Performing Arts, Inc.	
Assets	\$	7,936,640
Liabilities		1,077,929
Revenues		5,520,564
Expenses		5,184,356

18. Joint Participation Agreement

Eastern Florida State College entered into a joint participation agreement with Daytona State College to provide for the transition of both Colleges to digital transmission capabilities for their respective public television stations. The Colleges agreed to submit a joint application for the Federal funds that were combined with funding from other sources to finance the project.

The joint participation agreement provides for conversion of master control facilities for each College, the installment of a joint-use digital antenna, and to jointly lease the tower space. The College will share equally the lease payment and other obligations contained in the tower lease agreement. Also, the Colleges agreed to equally share the costs of maintenance and repair of the equipment and facilities and common expenses relating to the joint use of the leased tower, the digital antenna, the transmission lines, and other common equipment. In addition, the Colleges agreed to share any such engineering fees or consulting fee as may be occasioned for the common benefit of the Colleges.

Daytona State College has been designated as the fiscal agent and, in accordance with the agreement, will act for the benefit of both Colleges. Daytona State College will serve as the owner of record of the digital antenna, transmission lines and associated equipment acquired with Federal and State grants.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2009	\$ -	\$ 718,784	\$ 718,784	0%	\$ 38,735,552	1.9%
7/1/2011	-	889,457	889,457	0%	35,859,896	2.5%
7/1/2013	-	1,110,475	1,110,475	0%	38,838,571	2.9%

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

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

	2014 (1)	2013 (1)
College's proportion of the FRS net pension liability	0.112278807%	0.100509538%
College's proportionate share of the FRS net pension liability	\$ 6,850,658	\$ 17,302,165
College's covered-employee payroll (2)	\$ 42,727,570	\$ 42,125,389
College's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	16.03%	41.07%
FRS Plan fiduciary net position as a percentage of the total pension liability	96.09%	88.54%

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

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

Schedule of College Contributions – Florida Retirement System Pension Plan

	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 2,647,551	\$ 2,459,382
FRS contributions in relation to the contractually required contribution	(2,647,551)	(2,459,382)
FRS contribution deficiency (excess)	\$ -	\$ -
College's covered-employee payroll (2)	\$ 42,430,592	\$ 42,727,570
FRS contributions as a percentage of covered-employee payroll	6.24%	5.76%

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

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

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

	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.143599139%	0.145005705%
College's proportionate share of the HIS net pension liability	\$ 13,426,870	\$ 12,624,653
College's covered-employee payroll (2)	\$ 42,727,570	\$ 42,125,389
College's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	31.42%	29.97%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.99%	1.78%

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

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

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

	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 532,045	\$ 491,922
HIS contributions in relation to the contractually required HIS contribution	(532,045)	(491,922)
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll (2)	\$ 42,430,592	\$ 42,727,570
HIS contributions as a percentage of covered-employee payroll	1.25%	1.15%

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

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
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1. Schedule of Funding Progress – Other Postemployment Benefit Plan

The July 1, 2013, unfunded actuarial accrued liability of \$1,110,475 was \$221,018 higher than the July 1, 2011, liability of \$889,457 as a result of the following factors:

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

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

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

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

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



Sherrill F. Norman, CPA
Auditor General

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

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

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

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

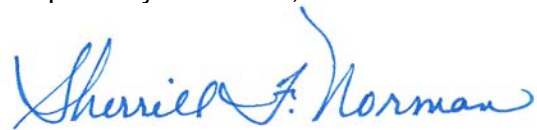
As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

We noted certain matters that we reported to College management in our operational audit report No. 2016-084.

Purpose of this Report

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

Respectfully submitted,



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