

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2016-177
March 2016

POLK 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. Eileen Holden served as President and the following individuals served as Members of the Board of Trustees:

Daniel F. Dorrell, Chair from 8-25-14,
Vice Chair to 8-24-14
Teresa V. Martinez, Vice Chair from 8-25-14
Linda Pilkington, Chair to 8-24-14
Ricardo Garcia
Gregory Littleton
Cynthia Hartley Ross from 3-16-15 ^a
Mark G. Turner

Note: ^a Position remained vacant from 7-1-14 through
3-15-15.

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 Pakeishia L. Johnson and the audit was supervised by David A. Blanton, 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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POLK STATE COLLEGE
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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Polk 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 Polk 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.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Polk 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 Polk 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 Polk State College's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

The College's assets totaled \$116.7 million at June 30, 2015. This balance reflects a \$15.3 million, or 15.1 percent, increase as compared to the 2013-14 fiscal year, resulting primarily from construction in progress related to the Center for Public Safety and the Winter Haven Campus chiller plant. Liabilities increased by \$16.7 million, or 225.2 percent, totaling \$24.1 million at June 30, 2015, compared to \$7.4 million at June 30, 2014, resulting mainly from the addition of pension liabilities due to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68. In addition, deferred outflows and deferred inflows of resources increased \$4.6 million and \$6.2 million, respectively, as a result of adopting GASB Statement No. 68. The initial adoption of GASB Statement No. 68 also resulted in an adjustment to beginning net position of \$13.3 million. As a result, the College's net position decreased by \$3 million, resulting in a year-end balance of \$91 million.

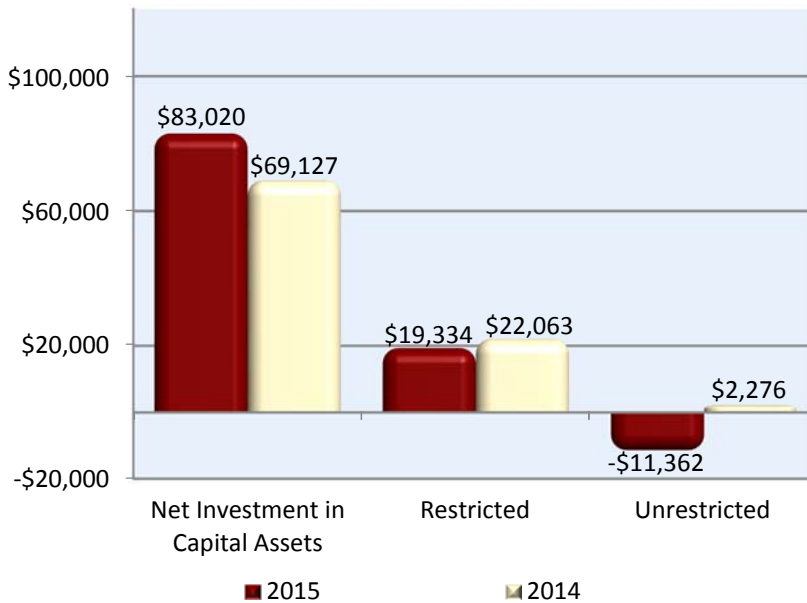
The College's operating revenues totaled \$22.9 million for the 2014-15 fiscal year, representing a 15 percent increase compared to the 2013-14 fiscal year due mainly to a Quick Response Training grant. Operating expenses totaled \$80.7 million for the 2014-15 fiscal year, representing an increase of 0.3 percent as compared to the 2013-14 fiscal year.

Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College had a negative unrestricted fund balance of \$11.4 million that was the result of the adoption of GASB Statement No. 68.

Colleges that do not maintain an unencumbered operating fund balance of at least five percent of the funds available have to notify the State Board of Education. The College's unencumbered operating fund balance percentage as of June 30, 2015, was 7.7 percent. Thus, the College has exceeded the State's minimum thresholds for financial management of the operating fund balance.

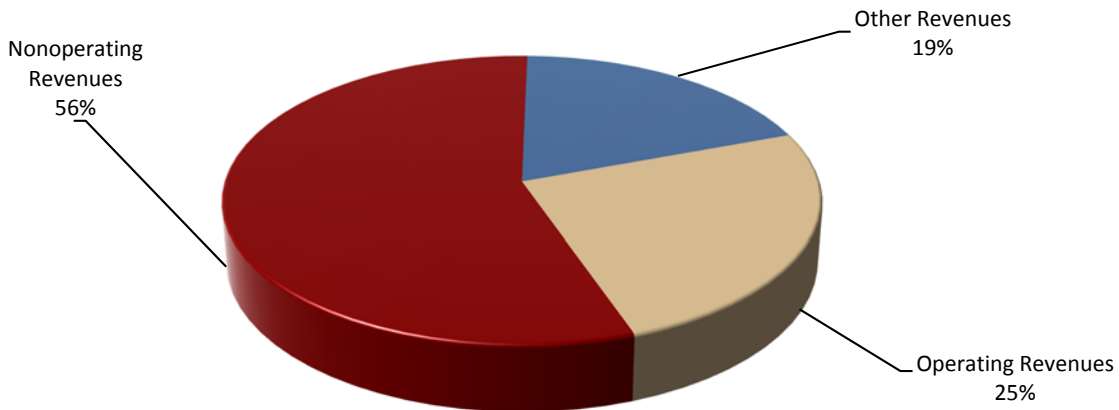
The College's comparative total net position by category for the fiscal years ended June 30, 2015, and June 30, 2014, is shown in the following graph:

Net Position: College
(In Thousands)



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

Total Revenues: College



OVERVIEW OF FINANCIAL STATEMENTS

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

- Polk 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.
- Polk 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 Foundation’s fiscal year is from January 1 to December 31. As a result, the Foundation’s financial activities presented in the MD&A and accompanying financial statements are for the fiscal years ended December 31, 2014, and 2013, respectively.

The Statement of Net Position

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

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

Condensed Statement of Net Position at

(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	12-31-14	12-31-13
Assets				
Current Assets	\$ 29,084	\$ 29,241	\$ 2,236	\$ 13,963
Capital Assets, Net	85,727	69,467	33	33
Other Noncurrent Assets	1,907	2,665	22,962	13,921
Total Assets	116,718	101,373	25,231	27,917
Deferred Outflows of Resources	4,593	-	-	-
Liabilities				
Current Liabilities	6,661	3,329	181	1,068
Noncurrent Liabilities	17,427	4,078	-	-
Total Liabilities	24,088	7,407	181	1,068
Deferred Inflows of Resources	6,231	-	-	-
Net Position				
Net Investment in Capital Assets	83,020	69,127	33	33
Restricted	19,334	22,063	23,952	25,697
Unrestricted	(11,362)	2,776	1,065	1,119
Total Net Position	\$ 90,992	\$ 93,966	\$ 25,050	\$ 26,849

Current assets increased mainly due to an increase in construction in progress for the Center for Public Safety and the Winter Haven Campus chiller plant. There was an increase of \$16.7 million in liabilities, primarily due to the loan of \$2.5 million for the new chiller plant and the \$11.1 million net pension liability recorded from the adoption of GASB Statement No. 68. Further information on the implementation of the reporting change can be found in the notes to the 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 respective fiscal years ended:

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

(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	12-31-14	12-31-13
Operating Revenues	\$ 22,875	\$ 19,893	\$ 213	\$ 1,766
Less, Operating Expenses	80,665	80,409	5,375	10,412
Operating Loss	(57,790)	(60,516)	(5,162)	(8,646)
Net Nonoperating Revenues	50,708	50,648	3,195	2,368
Loss Before Other Revenues	(7,082)	(9,868)	(1,967)	(6,278)
Other Revenues	17,395	19,827	168	2,112
Net Increase (Decrease) In Net Position	10,313	9,959	(1,799)	(4,166)
Net Position, Beginning of Year	93,966	84,007	26,849	31,015
Adjustment to Beginning Net Position (1)	(13,287)	-	-	-
Net Position, Beginning of Year, as Restated	80,679	84,007	26,849	31,015
Net Position, End of Year	<u>\$ 90,992</u>	<u>\$ 93,966</u>	<u>\$ 25,050</u>	<u>\$ 26,849</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. See Notes 2 and 3 to the financial statements.

Operating Revenues

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

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

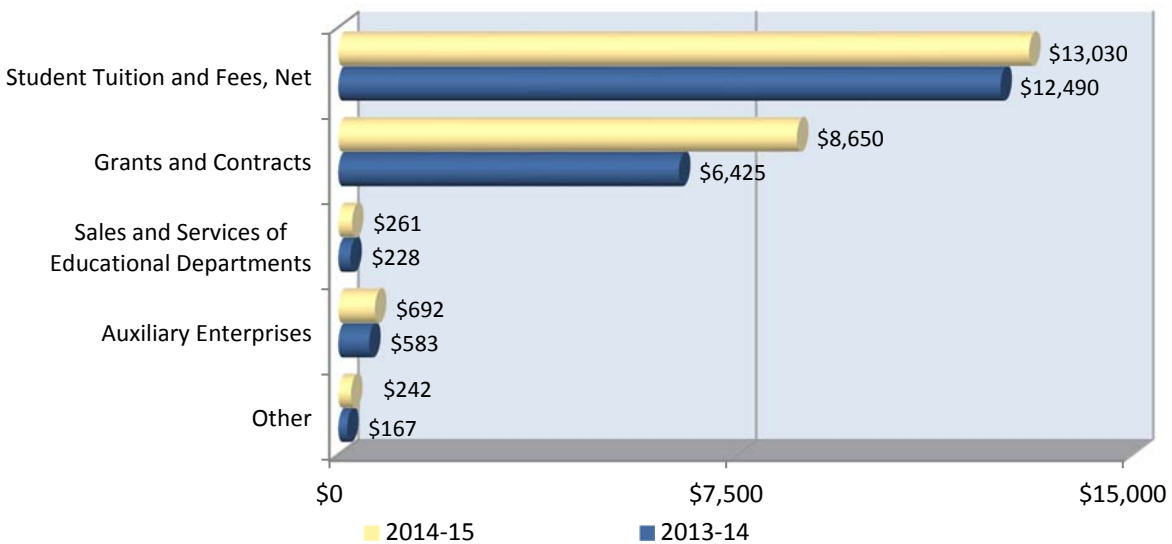
**Operating Revenues
For the Fiscal Years Ended**

(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	12-31-14	12-31-13
Student Tuition and Fees, Net	\$ 13,030	\$ 12,490	\$ -	\$ -
Grants and Contracts	8,650	6,425	-	-
Sales and Services of Educational Departments	261	228	-	-
Auxiliary Enterprises	692	583	-	-
Other	242	167	213	1,766
Total Operating Revenues	\$ 22,875	\$ 19,893	\$ 213	\$ 1,766

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 revenues increased primarily as a result of the impact of the Quick Response Training (QRT) grant.

Operating Expenses

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

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

**Operating Expenses
For the Fiscal Years Ended**

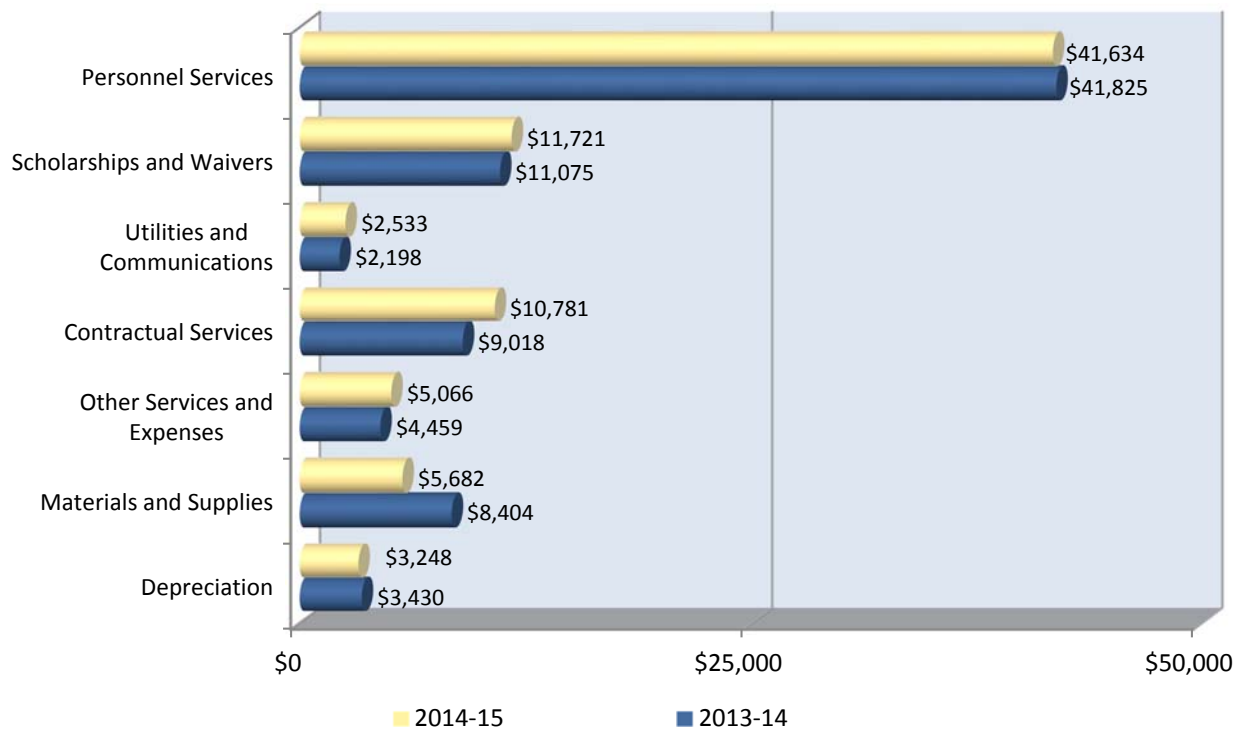
(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	12-31-14	12-31-13
Personnel Services	\$ 41,634	\$ 41,825	\$ 802	\$ 139
Scholarships and Waivers	11,721	11,075	1,327	1,723
Utilities and Communications	2,533	2,198	89	57
Contractual Services	10,781	9,018	395	342
Other Services and Expenses	5,066	4,459	2,720	226
Materials and Supplies	5,682	8,404	42	7,925
Depreciation	3,248	3,430	-	-
Total Operating Expenses	\$ 80,665	\$ 80,409	\$ 5,375	\$ 10,412

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

Operating Expenses: College

(In Thousands)



College operating expense changes were the result of the following factors:

- Contractual services increased \$1.8 million, or 19.6 percent, due primarily to an increase in course offerings being taught by the Corporate College.
- Materials and supplies decreased \$2.7 million, or 32.4 percent, primarily as a result of a reduction in non-capital building remodeling/renovation costs.

Nonoperating Revenues and Expenses

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

Nonoperating Revenues (Expenses): College (In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
State Noncapital Appropriations	\$ 27,613	\$ 26,782
Federal and State Student Financial Aid	21,919	22,727
Gifts and Grants	1,181	1,136
Investment Income	18	13
Other Nonoperating Revenues	14	12
Interest on Capital Asset-Related Debt	<u>(37)</u>	<u>(22)</u>
Net Nonoperating Revenues	<u>\$ 50,708</u>	<u>\$ 50,648</u>

Changes in nonoperating revenues are primarily related to an increase in recurring appropriations included in the Florida State College Program Fund and a decrease in Federal Pell grants awarded.

Other Revenues

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

Other Revenues: College (In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
State Capital Appropriations	\$ 14,589	\$ 9,623
Capital Grants, Contracts, Gifts, and Fees	<u>2,806</u>	<u>10,204</u>
Total Other Revenues	<u>\$ 17,395</u>	<u>\$ 19,827</u>

Changes in other revenues are primarily related to a decrease in the amount received from the Foundation for the completion of the Clear Springs Advanced Technology Center and an increase in Public Education Capital Outlay appropriations from the State.

The Statement of Cash Flows

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

cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

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

Condensed Statement of Cash Flows: College
(In Thousands)

	2014-15	2013-14
Cash Provided (Used) by:		
Operating Activities	\$ (52,988)	\$ (57,183)
Noncapital Financing Activities	51,062	52,904
Capital and Related Financing Activities	863	5,509
Investing Activities	18	13
Net Increase (Decrease) in Cash and Cash Equivalents	(1,045)	1,243
Cash and Cash Equivalents, Beginning of Year	10,479	9,236
Cash and Cash Equivalents, End of Year	\$ 9,434	\$ 10,479

Major sources of funds came from State noncapital appropriations (\$27.6 million), Federal and State student financial aid (\$22 million), net student tuition and fees (\$13.5 million), State capital appropriations (\$13.6 million), Federal Direct Loan program receipts (\$10.6 million), grants and contracts (\$8.6 million), proceeds from capital debt (\$3.2 million), and capital grants and gifts (\$2.6 million). Major uses of funds were for payments to employee salaries and benefits (\$42 million), payments to suppliers (\$20.1 million), purchases of capital assets (\$18.2 million), disbursements to students for Federal Direct Loans (\$10.6 million), and payments for scholarships (\$11.7 million).

The College's overall liquidity diminished during the fiscal year as cash and cash equivalents decreased \$1 million from the prior fiscal year. Operating activities used \$4.2 million less in cash primarily due to an increase in net tuition and fees and grants and contracts. Capital and related activities provided \$4.6 million less cash primarily due to a decrease in reimbursements from the Foundation.

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

Capital Assets

At June 30, 2015, the College had \$137.4 million in capital assets, less accumulated depreciation of \$51.7 million, for net capital assets of \$85.7 million. Depreciation charges for the current fiscal year totaled \$3.2 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30: College

(In Thousands)

<u>Capital Assets</u>	<u>2015</u>	<u>2014</u>
Land	\$ 6,557	\$ 6,557
Artwork	12	12
Construction in Progress	19,919	1,366
Buildings	57,389	59,823
Other Structures and Improvements	428	562
Furniture, Machinery, and Equipment	1,126	826
Leasehold Improvements	296	321
Capital Assets, Net	\$ 85,727	\$ 69,467

Capital Expenses and Commitments

Major capital expenses through June 30, 2015, were incurred on the Center for Public Safety and the Winter Haven Campus chiller plant. The College's major construction commitments at June 30, 2015, are as follows:

	<u>Amount</u> <u>(In Thousands)</u>
Total Committed	\$ 27,164
Completed to Date	<u>19,919</u>
Balance Committed	\$ <u>7,245</u>

The College has also committed \$3.8 million to design and develop an enterprise resource system over the next 5 years. Additional information about the College's construction and other commitments is presented in the notes to financial statements.

Debt Administration

As of June 30, 2015, the College had \$3.2 million in outstanding long-term debt versus \$340 thousand at the end of the prior fiscal year, an increase of \$2.9 million. This increase results primarily from the loan to replace the Winter Haven Campus chiller plant. 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	\$ 220	\$ 340
Notes Payable	<u>2,981</u>	<u>-</u>
Total	\$ <u>3,201</u>	\$ <u>340</u>

During the 2014-15 fiscal year, the SBE issued \$130 million of the SBE Capital Outlay Bonds, Series 2014B. Proceeds from the College's portion of the bonds, \$220 thousand, were used to refund

SBE Capital Outlay Bonds, Series 2005A. Debt repayments during the 2014-15 fiscal year totaled \$340 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

Polk State College's economic condition is closely tied to that of the State of Florida. A portion of State funding is primarily tied to College performance. There is uncertainty surrounding the performance funding model; therefore, the College has elected to treat these additional funds as non-recurring. Although revenue projections at the State level indicate a rebound, the increased demand on State resources continues to suggest uncertainty regarding the level of future State allocations. There was no tuition increase for the 2015-16 fiscal year.

The College anticipates a minimal enrollment decline for the 2015-16 fiscal year. Projected tuition revenue for the 2015-16 fiscal year of \$16.3 million is conservatively based on the premise of a slight decline in enrollment. The College continues to implement cost-saving measures to control expenses.

The College continues to monitor the State of Florida Public Education Capital Outlay (PECO) program. Continued uncertainty regarding the availability of PECO funds for repairs, renovations, and new construction of college facilities has delayed and otherwise deferred capital projects. The impact of the deferral of these projects has an uncertain effect on the College in the coming years.

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 Peter S. Elliott, CPA, Vice President for Administration/CFO, Polk State College, 999 Avenue H, Winter Haven, Florida 33881.

BASIC FINANCIAL STATEMENTS

Polk 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	\$ 4,416,066	\$ 1,327,317
Restricted Cash and Cash Equivalents	3,117,761	-
Contributions Receivable, Net	-	766,261
Accounts Receivable, Net	2,591,282	-
Notes Receivable, Net	-	141,321
Due from Other Governmental Agencies	18,874,014	-
Due from Component Unit	85,376	-
Other Receivables	-	701
Total Current Assets	<u>29,084,499</u>	<u>2,235,600</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,899,773	-
Restricted Investments	6,508	21,673,914
Contributions Receivable, Net	-	982,398
Notes Receivable, Net	-	306,782
Depreciable Capital Assets, Net	59,238,836	-
Nondepreciable Capital Assets	26,488,422	32,782
Total Noncurrent Assets	<u>87,633,539</u>	<u>22,995,876</u>
TOTAL ASSETS	<u>116,718,038</u>	<u>25,231,476</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	4,593,785	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,402,942	154,925
Salary and Payroll Taxes Payable	1,633,843	-
Retainage Payable	1,085,552	-
Due to Other Governmental Agencies	315,840	-
Unearned Revenue	166,918	26,650
Deposits Held for Others	61,555	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	161,000	-
Notes Payable	430,485	-
Compensated Absences Payable	152,958	-
Net Pension Liability	250,362	-
Total Current Liabilities	<u>6,661,455</u>	<u>181,575</u>

Polk 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	59,000	-
Notes Payable	2,550,219	-
Compensated Absences Payable	3,491,357	-
Other Postemployment Benefits Payable	516,626	-
Net Pension Liability	10,809,354	-
Total Noncurrent Liabilities	17,426,556	-
TOTAL LIABILITIES	24,088,011	181,575
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	6,231,392	-
NET POSITION		
Net Investment in Capital Assets	83,019,748	32,782
Restricted:		
Nonexpendable:		
Endowment	-	13,017,752
Expendable:		
Grants and Loans	2,264,592	1,446,885
Scholarships	348,520	6,134,345
Capital Projects	16,715,063	37,638
Debt Service	6,508	-
Other	-	3,315,998
Unrestricted	(11,362,011)	1,064,501
TOTAL NET POSITION	\$ 90,992,420	\$ 25,049,901

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

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

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$11,329,316	\$ 13,030,246	\$ -
Federal Grants and Contracts	2,690,660	-
State and Local Grants and Contracts	5,726,832	-
Nongovernmental Grants and Contracts	231,819	-
Sales and Services of Educational Departments	260,946	-
Auxiliary Enterprises	692,276	-
Other Operating Revenues	241,715	212,629
Total Operating Revenues	<u>22,874,494</u>	<u>212,629</u>
EXPENSES		
Operating Expenses:		
Personnel Services	41,634,327	801,776
Scholarships and Waivers	11,720,884	1,326,681
Utilities and Communications	2,533,002	88,652
Contractual Services	10,780,562	395,102
Other Services and Expenses	5,065,924	2,719,988
Materials and Supplies	5,681,576	42,547
Depreciation	3,248,420	-
Total Operating Expenses	<u>80,664,695</u>	<u>5,374,746</u>
Operating Loss	<u>(57,790,201)</u>	<u>(5,162,117)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	27,613,171	-
Federal and State Student Financial Aid	21,919,569	-
Gifts and Grants	1,180,610	2,275,220
Investment Income	18,175	894,085
Other Nonoperating Revenues	13,963	26,476
Interest on Capital Asset-Related Debt	(37,043)	-
Net Nonoperating Revenues	<u>50,708,445</u>	<u>3,195,781</u>
Loss Before Other Revenues	<u>(7,081,756)</u>	<u>(1,966,336)</u>
State Capital Appropriations	14,589,179	-
Capital Grants, Contracts, Gifts, and Fees	2,805,957	-
Other Income	-	167,552
Total Other Revenues	<u>17,395,136</u>	<u>167,552</u>
Increase (Decrease) in Net Position	<u>10,313,380</u>	<u>(1,798,784)</u>
Net Position, Beginning of Year	93,965,821	26,848,685
Adjustment to Beginning Net Position	(13,286,781)	-
Net Position, Beginning of Year, as Restated	<u>80,679,040</u>	<u>26,848,685</u>
Net Position, End of Year	<u>\$ 90,992,420</u>	<u>\$ 25,049,901</u>

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

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Polk 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	\$ 13,508,318
Grants and Contracts	8,649,312
Payments to Suppliers	(20,055,116)
Payments for Utilities and Communications	(2,533,002)
Payments to Employees	(33,956,462)
Payments for Employee Benefits	(8,013,961)
Payments for Scholarships	(11,720,884)
Auxiliary Enterprises	692,276
Sales and Service of Educational Departments	260,946
Other Receipts	180,478
	(52,988,095)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	27,613,171
Federal and State Student Financial Aid	21,974,585
Federal Direct Loan Program Receipts	10,644,961
Federal Direct Loan Program Disbursements	(10,644,961)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	1,474,292
	51,062,048
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	3,200,000
State Capital Appropriations	13,642,206
Capital Grants and Gifts	2,589,596
Proceeds from Sale of Capital Assets	13,962
Purchases of Capital Assets	(18,206,652)
Principal Paid on Capital Debt	(339,296)
Interest Paid on Capital Debt	(37,043)
	862,773
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	18,175
	18,175
Net Cash Provided by Investing Activities	18,175
Net Decrease in Cash and Cash Equivalents	(1,045,099)
Cash and Cash Equivalents, Beginning of Year	10,478,699
	\$ 9,433,600
Cash and Cash Equivalents, End of Year	\$ 9,433,600

Polk 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	\$ (57,790,201)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,248,420
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Accounts Receivable, Net	350,104
Other Assets	130,490
Accounts Payable	1,472,946
Salary and Payroll Taxes Payable	63,428
Unearned Revenue	33,167
Deposits Held for Others	(96,924)
Compensated Absences Payable	120,266
Other Post Employment Benefits Payable	69,667
Net Pension Liability	(3,793,365)
Deferred Outflows of Resources Related to Pensions	(3,027,485)
Deferred Inflows of Resources Related to Pensions	6,231,392
NET CASH USED BY OPERATING ACTIVITIES	\$ (52,988,095)
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL	
FINANCING ACTIVITIES	
Donation of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 216,362
The State Board of Education (SBE) issued \$220,000 in SBE Capital Outlay Bonds, Series 2014B, to refund \$230,000 in SBE Capital Outlay Bonds, Series 2005A. The new debt and the refunded 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 used to refund the old debt, the transaction did not affect cash and cash equivalents.	\$ 10,000

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The governing body of Polk 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 seven 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 Polk 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 Polk 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 Vice President for Administration/CFO, Polk State College, 999 Avenue H Northeast, Winter Haven, Florida, 33881. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 31, 2014.

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

business-type activities. This election requires the adoption of the accrual basis of accounting and entity wide 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 FASB standards of accounting and financial reporting for not-for-profit organizations.

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

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

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College is able to identify,

within its accounting system, amounts paid for tuition and fees by financial aid. The College records a scholarship allowance against tuition and fees for the total amount paid by financial 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 cash in money market accounts. 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.

Capital Assets. College capital assets consist of land; artwork; construction in progress; buildings; other structures and improvements; furniture, machinery, and equipment; and leasehold improvements. 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. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Vehicles, Office Machines, and Educational Equipment – 5 years
 - Furniture – 7 years
- Leasehold Improvements – Life of Lease – 20 years

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, notes 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 pension plan and the Health Insurance Subsidy (HIS) defined benefit pension plan and additions to/deductions from the FRS's and the HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are

recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

2. Reporting Change

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

3. Adjustment to Beginning Net Position

The beginning net position of the College, was decreased by \$13,286,781 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 pension 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., 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	\$ (11,526,133)
Auxiliary Funds	164,122
Total	<u><u>\$ (11,362,011)</u></u>

5. Investments

The College's Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the 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; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; and other investments approved by the College's Board of Trustees as authorized by law. State Board of Education (SBE) Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and

life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments.

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

State Board of Administration Debt Service Accounts

The College reported investments totaling \$6,508 at June 30, 2015, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College’s investments consist of United States Treasury securities, with maturity dates of 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.

Investments – Discretely Presented Component Unit

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

<u>Investment Type</u>	<u>Fair Value</u>
Money Market Funds	\$ 142,286
Mutual Stock Funds	9,768,131
Mutual Allocation Funds	2,253,253
Mutual Bond Funds	5,848,002
Individual Bonds	<u>3,662,242</u>
Total Component Unit Investments	<u>\$ 21,673,914</u>

6. Accounts Receivable

Accounts receivable represent amounts for student fee deferrals, various student services provided by the College, uncollected commissions for food service and vending machine sales, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$512,383 allowance for doubtful accounts.

7. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of \$17.7 million of Public Education Capital Outlay allocations due from the State for construction of College facilities.

8. Due From Component Unit

The \$85,376 reported as due from component unit mainly consists of amounts owed to the College by the Foundation for sponsored nursing instruction. The College’s financial statements are reported for the fiscal year ended June 30, 2015. The Foundation’s financial statements are reported for the fiscal year ended December 31, 2014. Accordingly, amounts reported by the College as due from component unit on the statement of net position do not agree with amounts reported by the Foundation as due to the College.

9. Capital Assets

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 6,557,601	\$ -	\$ -	\$ 6,557,601
Artwork	11,700	-	-	11,700
Construction in Progress	1,365,975	18,553,146	-	19,919,121
Total Nondepreciable Capital Assets	\$ 7,935,276	\$ 18,553,146	\$ -	\$ 26,488,422
Depreciable Capital Assets:				
Buildings	\$ 97,380,997	\$ -	\$ -	\$ 97,380,997
Other Structures and Improvements	5,356,337	-	-	5,356,337
Furniture, Machinery, and Equipment	6,918,599	955,419	173,299	7,700,719
Leasehold Improvements	493,964	-	-	493,964
Total Depreciable Capital Assets	110,149,897	955,419	173,299	110,932,017
Less, Accumulated Depreciation:				
Buildings	37,557,752	2,434,781	-	39,992,533
Other Structures and Improvements	4,794,454	133,820	-	4,928,274
Furniture, Machinery, and Equipment	6,092,967	655,121	173,299	6,574,789
Leasehold Improvements	172,887	24,698	-	197,585
Total Accumulated Depreciation	48,618,060	3,248,420	173,299	51,693,181
Total Depreciable Capital Assets, Net	\$ 61,531,837	\$ (2,293,001)	\$ -	\$ 59,238,836

10. Unearned Revenue

As of June 30, 2015, the College reported \$166,918 in unearned revenue for student tuition and fees received prior to fiscal year-end related to subsequent accounting periods.

11. 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	\$ 340,000	\$ 220,000	\$ 340,000	\$ 220,000	\$ 161,000
Notes Payable	-	3,200,000	219,296	2,980,704	430,485
Compensated Absences Payable	3,524,049	375,908	255,642	3,644,315	152,958
Other Postemployment Benefits Payable	446,959	120,929	51,262	516,626	-
Net Pension Liability (1)	14,853,081	982,760	4,776,125	11,059,716	250,362
Total Long-Term Liabilities	\$ 19,164,089	\$ 4,899,597	\$ 5,642,325	\$ 18,421,361	\$ 994,805

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 Rate (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds: Series 2014B	\$ 220,000	5	2017

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	\$ 161,000	\$ 11,887	\$ 172,887
2017	59,000	2,950	61,950
Total	<u>\$ 220,000</u>	<u>\$ 14,837</u>	<u>\$ 234,837</u>

During the 2014-15 fiscal year the SBE issued \$220,000 in Capital Outlay Refunding Bonds, Series 2014B, on behalf of the College which refunded \$230,000 of outstanding Capital Outlay Bonds, Series 2005A.

Notes Payable. On September 5, 2014, the College borrowed \$3,000,000, at a stated interest rate of 1.71 percent, to finance the cost of a chiller plant. The note matures on September 5, 2021, and principal and interest payments are made semi-annually. The College's capital improvement fees collected pursuant to Sections 1009.22 and 1009.23, Florida Statutes, are pledged as security for the note. The College has pledged a total of \$2,970,280 of capital improvement fees in connection with the note payable. During the 2014-15 fiscal year, the College recognized capital improvement fees totaling \$2,002,673 and expensed \$219,297 (11 percent) of these revenues for debt service directly collateralized by these revenues. The pledged capital improvement fee revenues are committed until final maturity of the debt on September 5, 2021. Approximately 20 percent of the revenue stream from capital improvement fees collected by the College has been pledged in connection with debt service on the note payable. In addition, the College obtained \$200,000, to finance the renovations to the cafeteria areas on both campuses. The note matures on August 1, 2025, and principal payments are made monthly.

Annual requirements to amortize the outstanding notes as of June 30, 2015, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 430,485	\$ 46,866	\$ 477,351
2017	437,510	39,596	477,106
2018	444,692	32,326	477,018
2019	451,985	24,932	476,917
2020	459,404	17,453	476,857
2021-2026	756,628	11,738	768,366
Total	\$ 2,980,704	\$ 172,911	\$ 3,153,615

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 \$3,644,315. The current portion of the compensated absences liability, \$152,958, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability. The College calculates its current portion of compensated absences liability by applying the remaining percentage of time for those employees in the Deferred Retirement Option Program plus the total payouts of all employees who have notified the College that they are leaving employment during the 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 provided by the Florida College System Risk Management Consortium (Consortium).

Plan Description. The College contributes to an agent multiple-employer defined benefit plan (Plan) administered by the Consortium 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 and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report 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, 42 retirees received postemployment healthcare benefits and 41 employees received post-employment life insurance benefits. The College provided required contributions of \$51,262 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 \$210,552, which represents 0.6 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 78,272
Amortization of Unfunded Actuarial Accrued Liability	39,678
Annual Required Contribution	117,950
Interest on Net OPEB Obligation	17,878
Adjustment to Annual Required Contribution	(14,899)
Annual OPEB Cost (Expense)	120,929
Contribution Toward the OPEB Cost	(51,262)
Increase in Net OPEB Obligation	69,667
Net OPEB Obligation, Beginning of Year	446,959
Net OPEB Obligation, End of Year	<u>\$ 516,626</u>

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

<u>Fiscal Year</u>	Percentage of		
	<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	\$ 126,933	11.2%	\$ 367,085
2013-14	120,398	33.7%	446,959
2014-15	120,929	42.4%	516,626

Funded Status and Funding Progress. As of July 1, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$1,190,353 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,190,353 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$34,138,238 for the 2014-15 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3.5 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, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, an inflation rate of 3 percent per year, and an annual healthcare cost trend rate of 7.5 percent for pre-Medicare and 6 percent for 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 open basis. The remaining amortization period at June 30, 2015, was 22 years.

12. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

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

Essentially all regular employees of the College are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122,

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

The College's FRS and HIS pension expense totaled \$1,206,630 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* – 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 Both of the Above Classes	0.00	12.28
FRS, Reemployed Retiree	(2)	(2)

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

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

The College's contributions to the Plan totaled \$1,485,429 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the College reported a liability of \$3,601,859 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 2014-15 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 0.059032633 percent, which was an increase of 0.010364314 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the College recognized pension expense of \$623,590. 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	\$ -	\$ 222,894
Change of assumptions	623,782	
Net difference between projected and actual earnings on FRS pension plan investments	-	6,008,498
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	1,500,960	-
College FRS contributions subsequent to the measurement date	1,485,429	-
Total	\$ 3,610,171	\$ 6,231,392

The deferred outflows of resources related to pensions totaling \$1,485,429 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	\$ (1,143,285)
2017	(1,143,285)
2018	(1,143,285)
2019	(1,143,285)
2020	358,839
Thereafter	107,651
Total	\$ (4,106,650)

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	\$ 15,405,628	\$ 3,601,859	\$(6,216,625)

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 \$315,480 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 \$310,660 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions. At June 30, 2015, the College reported a liability of \$7,457,857 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 0.079761094 percent, which was an increase of 0.005388672 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the College recognized pension expense of \$583,040. In addition, the College reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 265,380
Net difference between projected and actual earnings on HIS pension plan investments	3,580
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	403,994
College contributions subsequent to the measurement date	310,660
Total	\$ 983,614

The deferred outflows of resources totaling \$310,660 was related to pensions resulting from College contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 108,859
2017	108,859
2018	108,859
2019	108,859
2020	107,964
Thereafter	129,554
Total	\$ 672,954

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	\$ 8,482,708	\$ 7,457,857	\$ 6,602,399

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 \$14,299 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2015.

13. 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 Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 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 \$572,949 for the fiscal year ended June 30, 2015.

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

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

The College's contributions to the Program totaled \$202,604 and employee contributions totaled \$73,014 for the 2014-15 fiscal year.

14. Construction Commitments and Other Commitments

The College's 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>
Center for Public Safety	\$ 24,353,249	\$ 17,228,980	\$ 7,124,269
Winter Haven Campus chiller plant	2,810,641	2,690,141	120,500
Total	\$ 27,163,890	\$ 19,919,121	\$ 7,244,769

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

In May 2015, the College entered into a Design Collaboration Partnership Program for the purpose of allowing Polk State College to participate in the design and development of the next generation of Enterprise Resource Planning (ERP) system. The costs associated with this software will be capitalized as an intangible asset. This system will be implemented at Polk State College over 5 years and replace the existing Genesis system. Five year cost of ownership is as follows:

<u>Task</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Total</u>
Software	\$ 291,895	\$ 364,868	\$ 559,465	\$ 608,114	\$ 608,114	\$ 2,432,456
Implementation	195,000	171,620	390,000	520,000	65,000	1,341,620
Total	\$ 486,895	\$ 536,488	\$ 949,465	\$ 1,128,114	\$ 673,114	\$ 3,774,076

Included in the above costs are software maintenance, cloud services, and database services.

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, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 fiscal years.

Bonding of the members of the Board of Trustees is provided through purchased commercial insurance with minimum deductibles.

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	\$ 28,782,278
Public Services	550,773
Academic Support	8,819,104
Student Services	6,898,820
Institutional Support	10,109,228
Operation and Maintenance of Plant	9,608,951
Scholarships and Waivers	11,720,884
Depreciation	3,248,420
Auxiliary Enterprises	926,237
Total Operating Expenses	<u><u>\$ 80,664,695</u></u>

17. Subsequent Events

In July 2015, the College signed an operating lease agreement with Hewlett-Packard Financial Services to replace 2,119 of current College workstations with new HP workstations. Total lease cost is \$1.9 million. The lease term is 36 months with monthly payments of \$53 thousand.

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	\$ -	\$ 733,413	\$ 733,413	0%	\$ 15,746,831	4.7%
7/1/2011	-	842,157	842,157	0%	17,139,785	4.9%
7/1/2013	-	1,190,353	1,190,353	0%	22,043,180	5.4%

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	0.059032633%	0.048668319%
College's proportionate share of the FRS net pension liability	\$ 3,601,859	\$ 8,377,984
College's covered-employee payroll (2)	\$ 34,019,979	\$ 32,127,375
College's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	10.59%	26.08%
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**

	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required FRS contribution	\$ 1,485,429	\$ 1,293,065
FRS contributions in relation to the contractually required contribution	<u>(1,485,429)</u>	<u>(1,293,065)</u>
FRS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll (2)	\$ 34,138,283	\$ 34,019,979
FRS contributions as a percentage of covered-employee payroll	4.35%	3.80%

- 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	0.079761094%	0.074372422%
College's proportionate share of the HIS net pension liability	\$ 7,457,857	\$ 6,475,097
College's covered-employee payroll (2)	\$ 34,019,979	\$ 32,127,375
College's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	21.92%	20.15%
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	\$ 310,660	\$ 273,235
HIS contributions in relation to the contractually required HIS contribution	<u>(310,660)</u>	<u>(273,235)</u>
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll (2)	\$ 34,138,283	\$ 34,019,979
HIS contributions as a percentage of covered-employee payroll	0.91%	0.80%

- Notes: (1) The amounts presented for each fiscal year were determined as of June 30.
(2) Covered-employee payroll includes defined benefit plan actives, investment plan members and members in DROP.

1. Schedule of Funding Progress— Other Postemployment Benefits Plan

The July 1, 2013, unfunded actuarial accrued liability of \$1,190,353 was higher than the July 1, 2011, liability of \$842,157 as a result of the following factors:

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

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

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

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

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



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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF 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 Polk 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 28, 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.

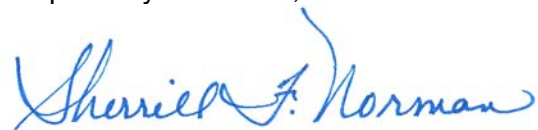
Compliance and Other Matters

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*.

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 28, 2016