

**STATE OF FLORIDA AUDITOR GENERAL**

**Financial Audit**

**LAKE-SUMTER STATE COLLEGE**

For the Fiscal Year Ended  
June 30, 2016



Sherrill F. Norman, CPA  
Auditor General

## **Board of Trustees and President**

During the 2015-16 fiscal year, Dr. Charles R. Mojock served as President through 12-31-15, and Dr. Stanley Sidor served as President of Lake-Sumter State College after that date. The following individuals served as Members of the Board of Trustees:

|  | <u>County</u> |
|--|---------------|
| Kelly S. Rice, Chair from 7-21-15                                      | Sumter        |
| Raymond Scott Blankenship,<br>Vice Chair from 7-21-15                  | Lake          |
| Timothy Morris, Chair to 7-20-15                                       | Lake          |
| Richard P. Bowersox to 10-22-15, <sup>a</sup> Vice Chair<br>to 7-20-15 | Lake          |
| Marcia M. Butler   | Sumter        |
| Jennifer S. Hill from 10-30-15 <sup>b</sup>                            | Sumter        |
| Bret D. Jones  | Lake          |
| Emily A. Lee   | Lake          |
| Peter F. Wahl  | Sumter        |

<sup>a</sup> Board member resigned on 10-22-15, and position remained vacant through 6-30-16.

<sup>b</sup> Position vacant from 7-1-15, through 10-29-15.

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 Yuling Liu, CPA, and the audit was supervised by Brenda C. Racis, CPA.

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

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**State of Florida Auditor General**

**Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722**

**LAKE-SUMTER STATE COLLEGE**  
**TABLE OF CONTENTS**

|   | Page<br>No. |
|---|-------------|
| SUMMARY .....   | i           |
| INDEPENDENT AUDITOR'S REPORT .....  | 1           |
| Report on the Financial Statements .....  | 1           |
| Other Reporting Required by <i>Government Auditing Standards</i> .....  | 2           |
| MANAGEMENT'S DISCUSSION AND ANALYSIS .....  | 4           |
| <b>BASIC FINANCIAL STATEMENTS</b>   |             |
| Statement of Net Position .....   | 14          |
| Statement of Revenues, Expenses, and Changes in Net Position .....  | 16          |
| Statement of Cash Flows .....   | 18          |
| Notes to Financial Statements .....   | 20          |
| <b>OTHER REQUIRED SUPPLEMENTARY INFORMATION</b>   |             |
| Schedule of Funding Progress – Other Postemployment Benefits Plan .....   | 39          |
| Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan .....   | 39          |
| Schedule of College Contributions – Florida Retirement System Pension Plan .....  | 40          |
| Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan .....  | 40          |
| Schedule of College Contributions – Health Insurance Subsidy Pension Plan .....   | 40          |
| Notes to Required Supplementary Information .....   | 41          |
| <b>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 .....</b> |             |
| Internal Control Over Financial Reporting .....   | 42          |
| Compliance and Other Matters .....  | 43          |
| Purpose of this Report .....  | 43          |

# SUMMARY

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## SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

## SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

## AUDIT OBJECTIVES AND SCOPE

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

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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2016. 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

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



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street  
Tallahassee, Florida 32399-1450



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

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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Lake-Sumter State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2016, 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 Lake-Sumter State College and of its discretely presented component unit as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the 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 dated February 10, 2017, on our consideration of the Lake-Sumter State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.** The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lake-Sumter State College's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
February 10, 2017

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

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

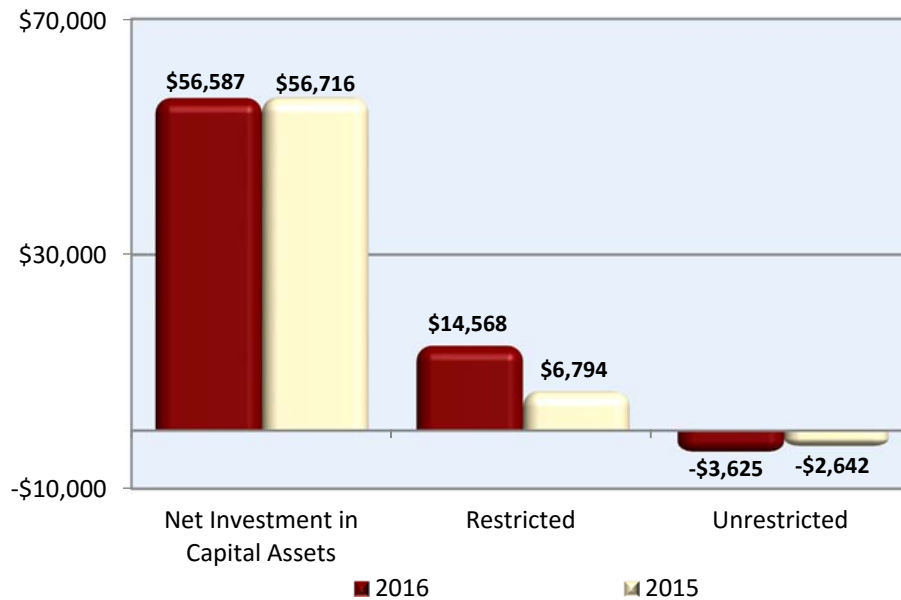
### **FINANCIAL HIGHLIGHTS**

The College's assets totaled \$78.3 million at June 30, 2016. This balance reflects a \$7.1 million, or 9.9 percent, increase as compared to the 2014-15 fiscal year, resulting mainly from a \$6.6 million increase in due from other governmental agencies for the new Health and Science Collegiate Academy Building and an increase of \$1 million in cash and cash equivalents. While assets grew, liabilities increased by \$2.9 million, or 30.2 percent, totaling \$12.4 million at June 30, 2016, compared to \$9.5 million at June 30, 2015. The growth in liabilities is the result, primarily, of an increase of \$2.4 million in net pension liability. Deferred outflows of resources increased by \$5.5 million, or 21.2 percent, while deferred inflows of resources decreased by \$2 million, or 67.4 percent. As a result, the College's net position increased by \$6.7 million, resulting in a year-end balance of \$67.5 million.

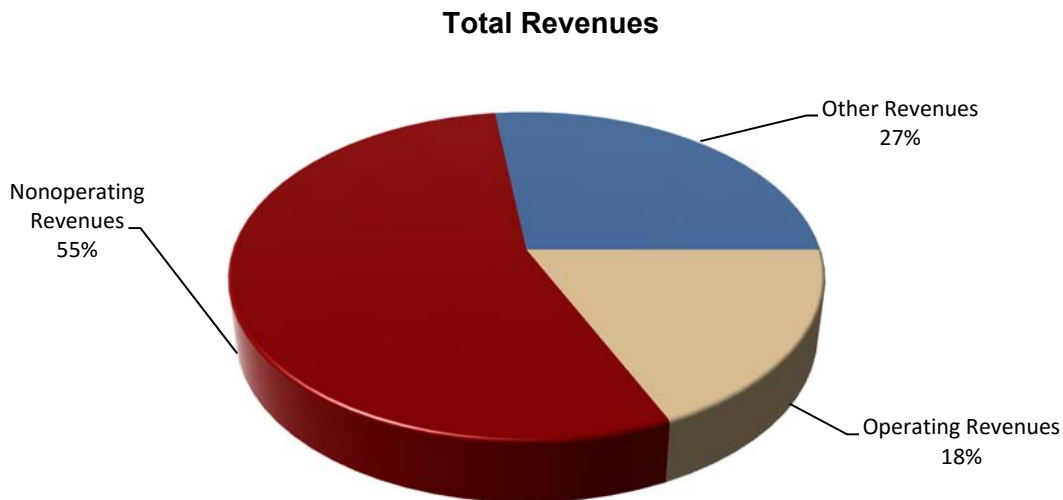
The College's operating revenues totaled \$7.3 million for the 2015-16 fiscal year, representing a 7.4 percent decrease compared to the 2014-15 fiscal year. Operating expenses totaled \$33.4 million for the 2015-16 fiscal year, representing an increase of 7.2 percent as compared to the 2014-15 fiscal year due mainly to large terminal payments for retirees.

Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2016, and June 30, 2015, is shown in the following graph:

**Net Position  
(In Thousands)**



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



**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, encompass the College and its component unit:

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

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

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

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

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

(In Thousands)

|                                       | <u>2016</u>      | <u>2015</u>      |
|---------------------------------------|------------------|------------------|
| <b>Assets</b>                         |                  |                  |
| Current Assets                        | \$ 17,222        | \$ 11,483        |
| Capital Assets, Net                   | 56,693           | 56,865           |
| Other Noncurrent Assets               | <u>4,340</u>     | <u>2,855</u>     |
| <b>Total Assets</b>                   | <u>78,255</u>    | <u>71,203</u>    |
| <b>Deferred Outflows of Resources</b> | <u>2,633</u>     | <u>2,172</u>     |
| <b>Liabilities</b>                    |                  |                  |
| Current Liabilities                   | 3,610            | 2,743            |
| Noncurrent Liabilities                | <u>8,770</u>     | <u>6,767</u>     |
| <b>Total Liabilities</b>              | <u>12,380</u>    | <u>9,510</u>     |
| <b>Deferred Inflows of Resources</b>  | <u>978</u>       | <u>2,997</u>     |
| <b>Net Position</b>                   |                  |                  |
| Net Investment in Capital Assets      | 56,587           | 56,716           |
| Restricted                            | 14,568           | 6,794            |
| Unrestricted                          | <u>(3,625)</u>   | <u>(2,642)</u>   |
| <b>Total Net Position</b>             | <u>\$ 67,530</u> | <u>\$ 60,868</u> |

Total assets increased by \$7.1 million primarily due to a Public Educational Capital Outlay (PECO) receivable of \$6.6 million for the new Health and Science Collegiate Academy Building. While assets grew, liabilities increased by \$2.9 million, due primarily to an increase in net pension liability. Deferred outflows of resources increased by \$.5 million and deferred inflows of resources decreased by \$2 million due to pension activity during the 2015-16 fiscal year.

## **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 College's activity for the 2015-16 and 2014-15 fiscal years:

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

|   | <u>2015-16</u>   | <u>2014-15</u>   |
|---|------------------|------------------|
| Operating Revenues                                  | \$ 7,277         | \$ 7,857         |
| Less, Operating Expenses                            | <u>33,356</u>    | <u>31,120</u>    |
| <b>Operating Loss</b>                               | (26,079)         | (23,263)         |
| Net Nonoperating Revenues                           | <u>21,935</u>    | <u>21,464</u>    |
| <b>Loss Before Other Revenues</b>                   | (4,144)          | (1,799)          |
| Other Revenues                                      | <u>10,806</u>    | <u>4,234</u>     |
| <b>Net Increase In Net Position</b>                 | <u>6,662</u>     | <u>2,435</u>     |
| Net Position, Beginning of Year                     | 60,868           | 64,615           |
| Adjustment to Beginning Net Position (1)            | <u>-</u>         | <u>(6,182)</u>   |
| <b>Net Position, Beginning of Year, as Restated</b> | <u>60,868</u>    | <u>58,433</u>    |
| <b>Net Position, End of Year</b>                    | <u>\$ 67,530</u> | <u>\$ 60,868</u> |

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

## **Operating Revenues**

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

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

**Operating Revenues  
For the Fiscal Years**

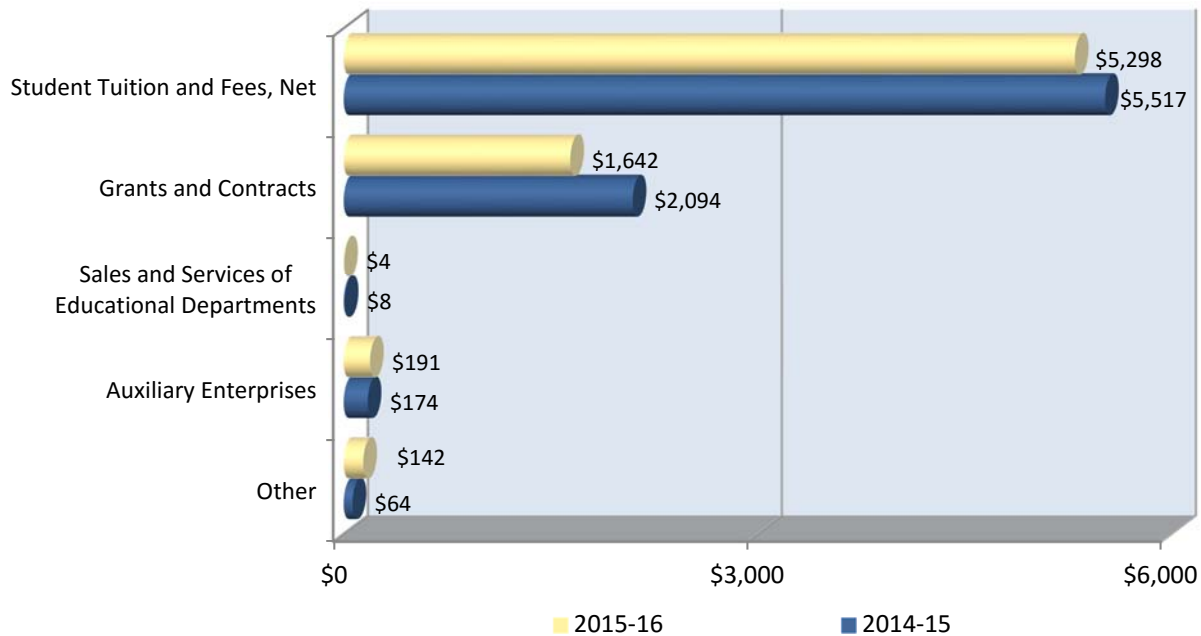
(In Thousands)

|   | <b>2015-16</b>  | <b>2014-15</b>  |
|---|-----------------|-----------------|
| Student Tuition and Fees, Net                 | \$ 5,298        | \$ 5,517        |
| Grants and Contracts                          | 1,642           | 2,094           |
| Sales and Services of Educational Departments | 4               | 8               |
| Auxiliary Enterprises                         | 191             | 174             |
| Other   | 142             | 64              |
| <b>Total Operating Revenues</b>               | <b>\$ 7,277</b> | <b>\$ 7,857</b> |

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

**Operating Revenues**

(In Thousands)



College operating revenue changes were primarily the result of a decrease of \$0.5 million, or 21.6 percent, in grants and contracts.

**Operating Expenses**

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

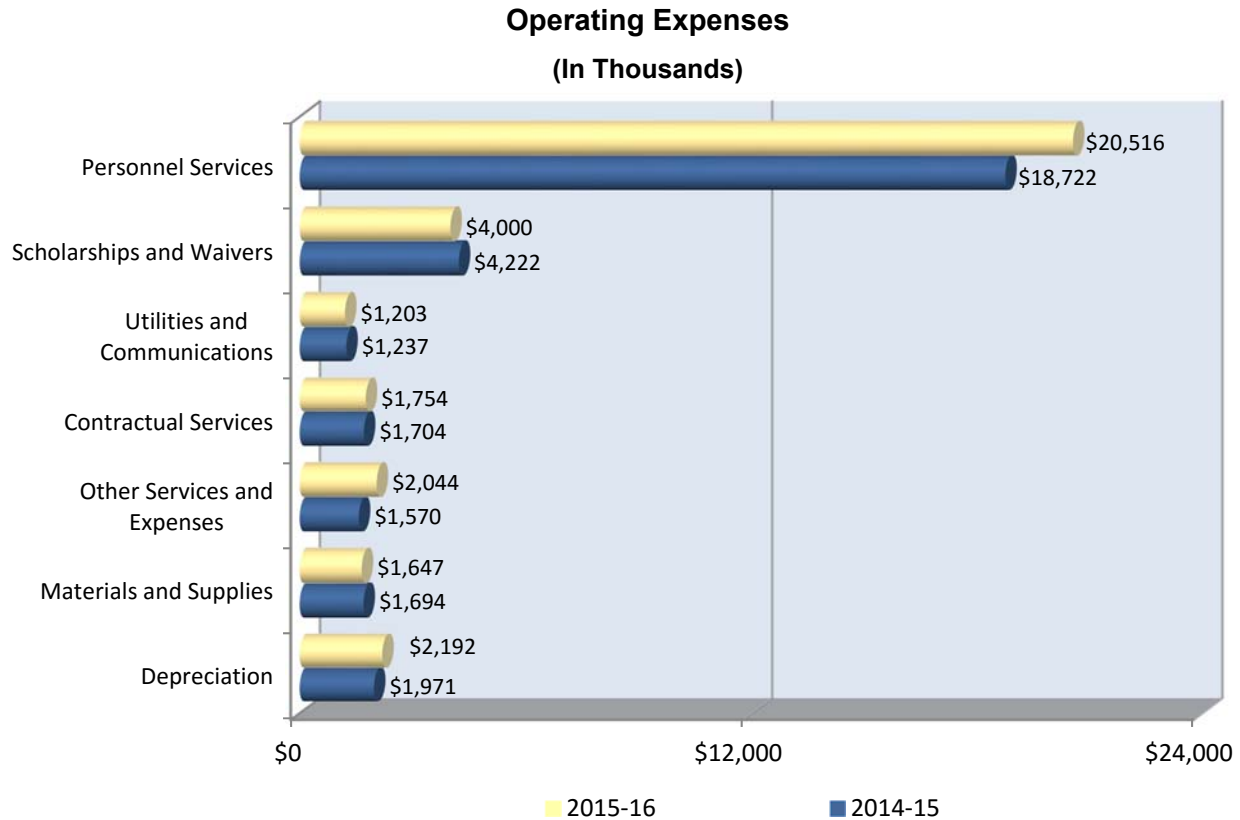
The following summarizes operating expenses by natural classification for the 2015-16 and 2014-15 fiscal years:

## Operating Expenses For the Fiscal Years

(In Thousands)

|                                 | 2015-16          | 2014-15          |
|---------------------------------|------------------|------------------|
| Personnel Services              | \$ 20,516        | \$ 18,722        |
| Scholarships and Waivers        | 4,000            | 4,222            |
| Utilities and Communications    | 1,203            | 1,237            |
| Contractual Services            | 1,754            | 1,704            |
| Other Services and Expenses     | 2,044            | 1,570            |
| Materials and Supplies          | 1,647            | 1,694            |
| Depreciation                    | 2,192            | 1,971            |
| <b>Total Operating Expenses</b> | <b>\$ 33,356</b> | <b>\$ 31,120</b> |

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



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

- Personnel services (including benefits) increased by \$1.8 million, which represents a 9.6 percent increase, resulting mainly from large terminal payouts for retirees, a 2.5 percent pay raise, and an increase of new hires.
- Other services and expenses increased by \$0.5 million, which represents a 30.2 percent increase, due to an increase in materials and supplies in noncapital improvements.

## **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 2015-16 and 2014-15 fiscal years:

|   | <b>2015-16</b>   | <b>2014-15</b>   |
|---|------------------|------------------|
| State Noncapital Appropriations         | \$ 13,744        | \$ 13,386        |
| Federal and State Student Financial Aid | 6,207            | 6,355            |
| Gifts and Grants                        | 1,953            | 1,676            |
| Investment Income                       | 39               | 38               |
| Other Nonoperating Revenues             | -                | 15               |
| Interest on Capital Asset-Related Debt  | (8)              | (6)              |
| <b>Net Nonoperating Revenues</b>        | <b>\$ 21,935</b> | <b>\$ 21,464</b> |

The increase in State noncapital appropriations was due to an increase in performance based incentives of \$.6 million partially offset by a combined decrease of \$.3 million in other noncapital appropriations. The increase in nonoperating gifts and grants of \$277,000, or 16.5 percent, was mostly due to \$99,000 for a new grant, the Domestic Security Project, received during the 2015-16 fiscal year, and an increase in Dual Enrollment revenue of \$123,400.

## **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 2015-16 and 2014-15 fiscal years:

|  | <b>2015-16</b>   | <b>2014-15</b>  |
|--|------------------|-----------------|
| State Capital Appropriations               | \$ 8,815         | \$ 3,253        |
| Capital Grants, Contracts, Gifts, and Fees | 1,991            | 981             |
| <b>Total</b>                               | <b>\$ 10,806</b> | <b>\$ 4,234</b> |

Other revenues increased \$6.6 million primarily from the increase in PECO funding designated for the construction of the new Health and Science Collegiate Academy Building.

## **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 and related 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 2015-16 and 2014-15 fiscal years:

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

|   | <b>2015-16</b>   | <b>2014-15</b>  |
|---|------------------|-----------------|
| Cash Provided (Used) by:                                    |                  |                 |
| Operating Activities  | \$ (22,952)      | \$ (22,170)     |
| Noncapital Financing Activities                             | 21,905           | 21,545          |
| Capital and Related Financing Activities                    | 2,056            | 453             |
| Investing Activities  | 39               | 38              |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b> | 1,048            | (134)           |
| Cash and Cash Equivalents, Beginning of Year                | 9,753            | 9,887           |
| <b>Cash and Cash Equivalents, End of Year</b>               | <b>\$ 10,801</b> | <b>\$ 9,753</b> |

Major sources of funds came from State noncapital appropriations (\$13.7 million), Federal and State student financial aid (\$6.2 million), net student tuition and fees (\$5.3 million), grants and contracts (\$2 million), and State capital appropriations (\$2 million). Major uses of funds were for payments to employees and for employee benefits (\$20.7 million), payments to suppliers (\$5.5 million), and payments for scholarships (\$3.9 million). Changes in cash and cash equivalents were the primary result of the gifts and donations received for the construction of the new Health and Science Collegiate Academy Building.

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

**Capital Assets**

At June 30, 2016, the College had \$88.5 million in capital assets, less accumulated depreciation of \$31.8 million, for net capital assets of \$56.7 million. Depreciation charges for the current fiscal year totaled \$2.2 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

## Capital Assets, Net at June 30

(In Thousands)

|                                     | <u>2016</u>             | <u>2015</u>             |
|-------------------------------------|-------------------------|-------------------------|
| Land                                | \$ 6,515                | \$ 6,515                |
| Artwork                             | 12                      | 12                      |
| Construction in Progress            | 613                     | 292                     |
| Buildings                           | 47,556                  | 48,910                  |
| Other Structures and Improvements   | 912                     | 535                     |
| Furniture, Machinery, and Equipment | 1,085                   | 601                     |
| <b>Capital Assets, Net</b>          | <b><u>\$ 56,693</u></b> | <b><u>\$ 56,865</u></b> |

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

### **Capital Expenses and Commitments**

The College had no major construction contract commitments at June 30, 2016. State capital appropriations together with local funds are expected to finance future construction, renovations, and purchases of land or facilities.

### **Debt Administration**

As of June 30, 2016, the College had \$106,000 in State Board of Education capital outlay bonds, and had a decrease of \$42,000, or 28.4 percent, from the prior fiscal year. Additional information about the College's long-term debt is presented in the notes to financial statements.

### **ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

The College's economic condition is closely tied to that of the State of Florida. The College has been allocated a 2016-17 performance funding appropriation of \$705,000, and an additional \$810,000 for student full-time equivalent (FTE) compression and funding allocations, which together represent an 11.5 percent increase over prior fiscal year funding, to be used for operations. The College was allocated \$1 million for telecommunication/utilities infrastructure Collegewide and an additional \$1.5 million in PECO funds for the construction of the new Health and Science Collegiate Academy Building. The College received an additional \$181,000 in PECO maintenance funds to be used for facility maintenance. The Board of Trustees did not increase any tuition rates.

### **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 Vicki Ward, Associate Vice President for Business Services, Lake-Sumter State College, 9501 US HWY 441, Leesburg, Florida 34788.

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# BASIC FINANCIAL STATEMENTS

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

June 30, 2016

|  | College           | Component<br>Unit |
|--|-------------------|-------------------|
| <b>ASSETS</b>                            |                   |                   |
| Current Assets:                          |                   |                   |
| Cash and Cash Equivalents                | \$ 5,391,117      | \$ 1,495,774      |
| Restricted Cash and Cash Equivalents     | 1,072,768         | -                 |
| Investments                              | -                 | 8,619,548         |
| Accounts Receivable, Net                 | 275,103           | -                 |
| Due from Other Governmental Agencies     | 10,011,675        | -                 |
| Due from Component Unit                  | 236,334           | -                 |
| Inventories                              | 16,248            | -                 |
| Prepaid Expenses                         | 218,718           | 20,920            |
| Deposits                                 | -                 | 1,000             |
| <b>Total Current Assets</b>              | <b>17,221,963</b> | <b>10,137,242</b> |
| Noncurrent Assets:                       |                   |                   |
| Restricted Cash and Cash Equivalents     | 4,337,234         | -                 |
| Restricted Investments                   | -                 | 5,242,578         |
| Depreciable Capital Assets, Net          | 49,553,117        | 305,130           |
| Nondepreciable Capital Assets            | 7,140,245         | 348,872           |
| Other Assets                             | 2,397             | 27,693            |
| <b>Total Noncurrent Assets</b>           | <b>61,032,993</b> | <b>5,924,273</b>  |
| <b>TOTAL ASSETS</b>                      | <b>78,254,956</b> | <b>16,061,515</b> |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>    |                   |                   |
| Deferred Amounts Related to Pensions     | 2,632,820         | -                 |
| <b>LIABILITIES</b>                       |                   |                   |
| Current Liabilities:                     |                   |                   |
| Accounts Payable                         | 409,240           | 2,917             |
| Salary and Payroll Taxes Payable         | 1,758,669         | -                 |
| Due to Other Governmental Agencies       | 54,632            | -                 |
| Due to College                           | -                 | 44,268            |
| Unearned Revenue                         | 152,932           | -                 |
| Deposits Held for Others                 | 714,261           | 170,716           |
| Long-Term Liabilities - Current Portion: |                   |                   |
| Bonds Payable                            | 46,000            | -                 |
| Compensated Absences Payable             | 298,755           | -                 |
| Net Pension Liability                    | 175,646           | -                 |
| <b>Total Current Liabilities</b>         | <b>3,610,135</b>  | <b>217,901</b>    |

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

**June 30, 2016**

|                                       | <b>College</b>       | <b>Component Unit</b> |
|---------------------------------------|----------------------|-----------------------|
| <b>LIABILITIES (Continued)</b>        |                      |                       |
| Noncurrent Liabilities:               |                      |                       |
| Bonds Payable                         | 60,000               | -                     |
| Compensated Absences Payable          | 1,223,711            | -                     |
| Other Postemployment Benefits Payable | 175,736              | -                     |
| Net Pension Liability                 | 7,310,811            | -                     |
| <b>Total Noncurrent Liabilities</b>   | <b>8,770,258</b>     | <b>-</b>              |
| <b>TOTAL LIABILITIES</b>              | <b>12,380,393</b>    | <b>217,901</b>        |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                      |                       |
| Deferred Amounts Related to Pensions  | 977,048              | -                     |
| <b>NET POSITION</b>                   |                      |                       |
| Net Investment in Capital Assets      | 56,587,362           | 654,002               |
| Restricted:                           |                      |                       |
| Nonexpendable:                        |                      |                       |
| Endowment                             | -                    | 5,242,578             |
| Expendable:                           |                      |                       |
| Endowment                             | -                    | 2,032,944             |
| Grants and Loans                      | 294,859              | -                     |
| Scholarships                          | 43,449               | 5,761,341             |
| Capital Projects                      | 14,227,179           | 1,541,279             |
| Debt Service                          | 2,580                | -                     |
| Unrestricted                          | (3,625,094)          | 611,470               |
| <b>TOTAL NET POSITION</b>             | <b>\$ 67,530,335</b> | <b>\$ 15,843,614</b>  |

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

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

|  | <b>College</b>       | <b>Component<br/>Unit</b> |
|--|----------------------|---------------------------|
| <b>REVENUES</b>  |                      |                           |
| Operating Revenues:  |                      |                           |
| Student Tuition and Fees, Net of Scholarship Allowances of \$3,270,883 | \$ 5,297,637         | \$ -                      |
| Federal Grants and Contracts   | 84,385               | -                         |
| State and Local Grants and Contracts                                   | 293,698              | -                         |
| Nongovernmental Grants and Contracts                                   | 1,264,515            | -                         |
| Sales and Services of Educational Departments                          | 4,519                | -                         |
| Auxiliary Enterprises  | 190,534              | -                         |
| Other Operating Revenues   | 141,554              | 1,344,226                 |
| <b>Total Operating Revenues</b>  | <b>7,276,842</b>     | <b>1,344,226</b>          |
| <b>EXPENSES</b>  |                      |                           |
| Operating Expenses:  |                      |                           |
| Personnel Services   | 20,515,986           | 251,607                   |
| Scholarships and Waivers   | 3,999,590            | 516,227                   |
| Utilities and Communications   | 1,202,684            | -                         |
| Contractual Services   | 1,753,661            | 12,195                    |
| Other Services and Expenses  | 2,044,309            | 1,214,983                 |
| Materials and Supplies   | 1,647,566            | 22,913                    |
| Depreciation   | 2,192,546            | 8,974                     |
| <b>Total Operating Expenses</b>  | <b>33,356,342</b>    | <b>2,026,899</b>          |
| <b>Operating Loss</b>  | <b>(26,079,500)</b>  | <b>(682,673)</b>          |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                                |                      |                           |
| State Noncapital Appropriations  | 13,743,782           | -                         |
| Federal and State Student Financial Aid                                | 6,206,561            | -                         |
| Gifts and Grants   | 1,953,792            | 42,367                    |
| Investment Income (Loss)   | 38,732               | (95,124)                  |
| Gain on Disposal of Capital Assets                                     | -                    | 491,785                   |
| Interest on Capital Asset-Related Debt                                 | (7,802)              | (19,516)                  |
| <b>Net Nonoperating Revenues</b>                                       | <b>21,935,065</b>    | <b>419,512</b>            |
| <b>Loss Before Other Revenues</b>                                      | <b>(4,144,435)</b>   | <b>(263,161)</b>          |
| State Capital Appropriations   | 8,815,526            | -                         |
| Capital Grants, Contracts, Gifts, and Fees                             | 1,991,295            | -                         |
| <b>Total Other Revenues</b>  | <b>10,806,821</b>    | <b>-</b>                  |
| <b>Increase (Decrease) in Net Position</b>                             | <b>6,662,386</b>     | <b>(263,161)</b>          |
| Net Position, Beginning of Year  | 60,867,949           | 16,106,775                |
| <b>Net Position, End of Year</b>                                       | <b>\$ 67,530,335</b> | <b>\$ 15,843,614</b>      |

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

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

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

|  | <b>College</b>       |
|--|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                            |                      |
| Student Tuition and Fees, Net  | \$ 5,319,887         |
| Grants and Contracts   | 2,006,847            |
| Payments to Suppliers  | (5,483,638)          |
| Payments for Utilities and Communications                              | (1,205,081)          |
| Payments to Employees  | (16,182,593)         |
| Payments for Employee Benefits   | (4,503,761)          |
| Payments for Scholarships  | (3,869,412)          |
| Auxiliary Enterprises  | 216,963              |
| Sales and Services of Educational Departments                          | 4,519                |
| Other Receipts   | 744,743              |
|  | <b>(22,951,526)</b>  |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                 |                      |
| State Noncapital Appropriations  | 13,743,782           |
| Federal and State Student Financial Aid                                | 6,206,561            |
| Federal Direct Loan Program Receipts                                   | 1,090,902            |
| Federal Direct Loan Program Disbursements                              | (1,089,912)          |
| Gifts and Grants Received for Other Than Capital or Endowment Purposes | 1,953,792            |
|  | <b>21,905,125</b>    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>        |                      |
| State Capital Appropriations   | 2,011,152            |
| Capital Grants and Gifts   | 1,990,809            |
| Purchases of Capital Assets  | (1,896,575)          |
| Principal Paid on Capital Debt   | (42,000)             |
| Interest Paid on Capital Debt  | (7,802)              |
|  | <b>2,055,584</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                            |                      |
| Investment Income  | 38,732               |
|  | <b>1,047,915</b>     |
| <b>Net Increase in Cash and Cash Equivalents</b>                       | <b>9,753,204</b>     |
| Cash and Cash Equivalents, Beginning of Year                           | 9,753,204            |
|  | <b>\$ 10,801,119</b> |

**Lake-Sumter State College**  
**A Component Unit of the State of Florida**  
**Statement of Cash Flows (Continued)**  
**For the Fiscal Year Ended June 30, 2016**

|  | <b>College</b>         |
|--|------------------------|
| <b>RECONCILIATION OF OPERATING LOSS</b>  |                        |
| <b>TO NET CASH USED BY OPERATING ACTIVITIES</b>  |                        |
| Operating Loss   | \$ (26,079,500)        |
| Adjustments to Reconcile Operating Loss<br>to Net Cash Used by Operating Activities:   |                        |
| Depreciation Expense   | 2,192,546              |
| Changes in Assets, Liabilities, Deferred Outflows of Resources,<br>and Deferred Inflows of Resources:  |                        |
| Receivables, Net   | 537,598                |
| Inventories  | 26,563                 |
| Prepaid Expenses   | (58,387)               |
| Other Assets   | (2,397)                |
| Accounts Payable   | 979                    |
| Salaries and Payroll Taxes Payable   | 295,190                |
| Unearned Revenue   | (20,924)               |
| Deposits Held for Others   | 603,190                |
| Compensated Absences Payable   | (393,132)              |
| Other Postemployment Benefits Payable  | 18,118                 |
| Net Pension Liability  | 2,408,825              |
| Deferred Outflows of Resources Related to Pensions   | (460,587)              |
| Deferred Inflows of Resources Related to Pensions  | (2,019,608)            |
|  | <b>\$ (22,951,526)</b> |
| <b>NET CASH USED BY OPERATING ACTIVITIES</b>   |                        |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH</b>  |                        |
| <b>CAPITAL FINANCING ACTIVITIES</b>  |                        |
| Donation of capital assets were recognized on the statement of revenues,<br>expenses, and changes in net position, but are not cash transactions for the<br>statement of cash flows. | \$ 125,000             |

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

# **NOTES TO FINANCIAL STATEMENTS**

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

**Reporting Entity.** The governing body of Lake-Sumter State College, a component unit of the State of Florida, is the College Board of Trustees. The Board of Trustees constitutes a corporation and is composed of nine 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 State law and State Board of Education (SBE) 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 SBE rules. Geographic boundaries of the College correspond with those of Lake and Sumter Counties.

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

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

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public and can be obtained from the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 31, 2015.

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

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

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

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

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

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

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

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

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

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

**Cash and Cash Equivalents**. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash with the State Treasury Special Purpose Investment Account (SPIA) and the State Board of Administration (SBA) Florida PRIME investment pools. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less to be cash equivalents. Under this definition, the College considers amounts invested in the State Treasury SPIA and SBA Florida PRIME investment pools to be cash equivalents.

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

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

At June 30, 2016, the College reported as cash equivalents at fair value \$1,647,210 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities (Level 3 inputs). Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investment with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.61 years and fair value factor of 1.0143 at June 30, 2016. Participants contribute to the Treasury Pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2016, the College reported as cash equivalents \$47,673 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission

Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 39 days as of June 30, 2016. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at amortized cost. Section 218.409(8)(a), Florida Statutes, states that "the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those moratorium on contributions and withdrawals. The moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days." As of June 30, 2016, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

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

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

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

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

## 2. Deficit Net Position in Individual Funds

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

| <u>Fund</u>                  | <u>Net Position</u>   |
|------------------------------|-----------------------|
| Current Funds - Unrestricted | \$ (4,474,365)        |
| Auxiliary Funds              | 849,271               |
| <b>Total</b>                 | <b>\$ (3,625,094)</b> |

## 3. Investments

### Component Unit Investments

Investments held by the Foundation at December 31, 2015, are all Level 1 inputs reported at fair value, as follows:

| <u>Investment Type</u>                      | <u>Fair Value</u>    | <u>Maturities In Years</u> |                     |
|---|----------------------|----------------------------|---------------------|
|   |                      | <u>1 - 5</u>               | <u>6 - 10</u>       |
| Investment in Debt Obligations:             |                      |                            |                     |
| United States Government Obligations        | \$ 183,576           | \$ -                       | \$ 183,576          |
| Federal Agency Obligations                  | 26,717               | -                          | 26,717              |
| Corporate Bonds                             | 3,510,180            | 1,625,330                  | 1,884,850           |
| <b>Total Investment in Debt Obligations</b> | <b>3,720,473</b>     | <b>\$ 1,625,330</b>        | <b>\$ 2,095,143</b> |
| Other Investments:                          |                      |                            |                     |
| Equities                                    | 10,141,653           |                            |                     |
| <b>Total Component Unit Investments</b>     | <b>\$ 13,862,126</b> |                            |                     |

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

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

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's investment policy limits its fixed income investments to an overall weighted average credit rating of "A" or better by Moody's or by Standard & Poor's. No more than 15 percent of the fixed income portion of the portfolio shall be rated below investment grade (below Baa/BBB). All commercial paper investments must have a minimum rating of A1/P1 by Standard & Poor's and Moody's, respectively. Obligations of the United States Government and obligations explicitly guaranteed by the United States Government are not considered to have credit risk. At December 31, 2015, the Foundation's investments in bonds and notes had credit quality ratings by nationally-recognized rating agencies ranging from Aa2 to Aaa by Moody's and from A to AAA by Standard & Poor's.

*Custodial Credit Risk:* Custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the Foundation will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Lending of the Foundation's portfolio of securities is expressly prohibited by the Foundation's investment policy. While the brokerage and trust accounts are in the Foundation's name, the securities are actually held in the trust department or agent's name.

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

#### **4. Accounts Receivable**

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$74,338 allowance for doubtful accounts.

#### **5. Due From Other Governmental Agencies**

The amount due from other governmental agencies primarily consists of \$9.9 million of Public Education Capital Outlay allocations due from the State for construction of College facilities.

#### **6. Due From and To Component Unit/College**

The \$236,334 reported as amount due from component unit consists of amounts owed to the College by the Foundation for program support, scholarships, and student aid.

The College's financial statements are reported for the fiscal year ended June 30, 2016. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2015.

Accordingly, the amount reported by the College as due from component unit on the statement of net position does not agree with the amount reported by the component unit as due to the College.

## 7. Capital Assets

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

| <u>Description</u>                           | <u>Beginning Balance</u> | <u>Additions</u>    | <u>Reductions</u> | <u>Ending Balance</u> |
|--|--------------------------|---------------------|-------------------|-----------------------|
| Nondepreciable Capital Assets:               |                          |                     |                   |                       |
| Land   | \$ 6,514,755             | \$ -                | \$ -              | \$ 6,514,755          |
| Artwork                                      | 12,188                   | -                   | -                 | 12,188                |
| Construction in Progress                     | 292,199                  | 1,320,977           | 999,874           | 613,302               |
| <b>Total Nondepreciable Capital Assets</b>   | <b>\$ 6,819,142</b>      | <b>\$ 1,320,977</b> | <b>\$ 999,874</b> | <b>\$ 7,140,245</b>   |
| Depreciable Capital Assets:                  |                          |                     |                   |                       |
| Buildings                                    | \$ 70,828,292            | \$ 260,218          | \$ -              | \$ 71,088,510         |
| Other Structures and Improvements            | 4,679,116                | 571,522             | -                 | 5,250,638             |
| Furniture, Machinery, and Equipment          | 4,712,011                | 868,731             | 591,540           | 4,989,202             |
| <b>Total Depreciable Capital Assets</b>      | <b>80,219,419</b>        | <b>1,700,471</b>    | <b>591,540</b>    | <b>81,328,350</b>     |
| Less, Accumulated Depreciation:              |                          |                     |                   |                       |
| Buildings                                    | 21,918,060               | 1,613,872           | -                 | 23,531,932            |
| Other Structures and Improvements            | 4,144,749                | 194,254             | -                 | 4,339,003             |
| Furniture, Machinery, and Equipment          | 4,111,418                | 384,420             | 591,540           | 3,904,298             |
| <b>Total Accumulated Depreciation</b>        | <b>30,174,227</b>        | <b>2,192,546</b>    | <b>591,540</b>    | <b>31,775,233</b>     |
| <b>Total Depreciable Capital Assets, Net</b> | <b>\$ 50,045,192</b>     | <b>\$ (492,075)</b> | <b>\$ -</b>       | <b>\$ 49,553,117</b>  |

## 8. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2016, is shown below:

| <u>Description</u>                    | <u>Beginning Balance</u> | <u>Additions</u>    | <u>Reductions</u>   | <u>Ending Balance</u> | <u>Current Portion</u> |
|---------------------------------------|--------------------------|---------------------|---------------------|-----------------------|------------------------|
| Bonds Payable                         | \$ 148,000               | \$ -                | \$ 42,000           | \$ 106,000            | \$ 46,000              |
| Compensated Absences Payable          | 1,915,598                | 113,967             | 507,099             | 1,522,466             | 298,755                |
| Other Postemployment Benefits Payable | 157,618                  | 51,896              | 33,778              | 175,736               | -                      |
| Net Pension Liability                 | 5,077,632                | 3,147,903           | 739,078             | 7,486,457             | 175,646                |
| <b>Total Long-Term Liabilities</b>    | <b>\$ 7,298,848</b>      | <b>\$ 3,313,766</b> | <b>\$ 1,321,955</b> | <b>\$ 9,290,659</b>   | <b>\$ 520,401</b>      |

**Bonds Payable.** The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the State Board of Administration (SBA) administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2016:

| <u>Bond Type</u>                          | <u>Amount<br/>Outstanding</u> | <u>Interest<br/>Rates<br/>(Percent)</u> | <u>Annual<br/>Maturity<br/>To</u> |
|---|-------------------------------|---|-----------------------------------|
| SBE Capital Outlay Bonds:<br>Series 2014B | \$ 106,000                    | 2 - 5                                   | 2020                              |

Annual requirements to amortize all bonded debt outstanding as of June 30, 2016, are as follows:

| <u>Fiscal Year<br/>Ending June 30</u> | <u>SBE Capital Outlay Bonds</u> |                 |                   |
|---------------------------------------|---------------------------------|-----------------|-------------------|
|                                       | <u>Principal</u>                | <u>Interest</u> | <u>Total</u>      |
| 2017                                  | \$ 46,000                       | \$ 5,120        | \$ 51,120         |
| 2018                                  | 48,000                          | 2,820           | 50,820            |
| 2019                                  | 6,000                           | 420             | 6,420             |
| 2020                                  | 6,000                           | 120             | 6,120             |
| <b>Total</b>                          | <u>\$ 106,000</u>               | <u>\$ 8,480</u> | <u>\$ 114,480</u> |

**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, 2016, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$1,522,466. The current portion of the compensated absences liability, \$298,755, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

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

*Plan Description.* The College contributes to an agent, multiple-employer defined benefit plan (Plan) administered by the Consortium. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's health 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 report and the Plan is not included in the annual report of a public employee retirement system or another entity.

*Funding Policy.* Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees has established and can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2015-16 fiscal year, 15 retirees received postemployment healthcare benefits and 6 received life insurance benefits. The College provided required contributions of \$33,778 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$163,164, which represents 1.38 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 OPEB Plan, and changes in the College's net OPEB obligation:

| <u>Description</u>                                      | <u>Amount</u>            |
|---|--------------------------|
| Normal Cost (Service Cost for One Year)                 | \$ 31,383                |
| Amortization of Unfunded Actuarial<br>Accrued Liability | <u>20,032</u>            |
| <b>Annual Required Contribution</b>                     | 51,415                   |
| Interest on Net OPEB Obligation                         | 6,305                    |
| Adjustment to Annual Required Contribution              | <u>(5,824)</u>           |
| <b>Annual OPEB Cost (Expense)</b>                       | 51,896                   |
| Contribution Toward the OPEB Cost                       | <u>(33,778)</u>          |
| <b>Increase in Net OPEB Obligation</b>                  | 18,118                   |
| Net OPEB Obligation, Beginning of Year                  | <u>157,618</u>           |
| <b>Net OPEB Obligation, End of Year</b>                 | <u><u>\$ 175,736</u></u> |

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

| <u>Fiscal Year</u> | <b>Percentage of</b> |                    |                   |
|--------------------|----------------------|--------------------|-------------------|
|                    | <u>Annual</u>        | <u>Annual</u>      | <u>Net OPEB</u>   |
|                    | <u>OPEB Cost</u>     | <u>OPEB Cost</u>   | <u>Obligation</u> |
|                    |                      | <u>Contributed</u> |                   |
| 2013-14            | \$ 48,552            | 74.3%              | \$ 144,257        |
| 2014-15            | 50,423               | 73.5%              | 157,618           |
| 2015-16            | 51,896               | 65.1%              | 175,736           |

*Funded Status and Funding Progress.* As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$542,169, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$542,169, and a funded ratio of 0 percent. The covered payroll

(annual payroll of active participating employees) was \$11,821,617 for the 2015-16 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.6 percent.

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

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial 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, 2015, used the entry age normal actuarial method to estimate the actuarial accrued liability as of June 30, 2016, and the College's 2015-16 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year, an inflation rate of 2.6 percent, and an annual healthcare cost trend rate of 7.5 percent pre-Medicare and 5.5 percent Medicare for the 2015-16 fiscal year, reduced by decrements to an ultimate rate of 5 percent in 2020 for pre-Medicare and in 2017 for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2016, was 21 years.

## **9. Retirement Plans – Defined Benefit Pension Plans**

### **General Information about the Florida Retirement System (FRS)**

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the 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 FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' Web site ([www.dms.myflorida.com](http://www.dms.myflorida.com)).

The College's FRS and HIS pension expense totaled \$739,077 for the fiscal year ended June 30, 2016.

### **FRS Pension Plan**

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

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

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

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

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

| <u>Class</u>   | <u>Percent of Gross Salary</u> |                     |
|--|--------------------------------|---------------------|
|  | <u>Employee</u>                | <u>Employer (1)</u> |
| FRS, Regular   | 3.00                           | 7.26                |
| FRS, Senior Management Service   | 3.00                           | 21.43               |
| Deferred Retirement Option Program - Applicable to Members from All of the Above Classes | 0.00                           | 12.88               |
| FRS, Reemployed Retiree  | (2)                            | (2)                 |

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

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

The College's contributions to the Plan totaled \$617,033 for the fiscal year ended June 30, 2016.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2016, the College reported a liability of \$3,722,085 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The College's proportionate share of the net pension liability was based on the College's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year

contributions of all participating members. At June 30, 2015, the College's proportionate share was 0.028816871 percent, which was an increase of 0.000428274 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the College recognized pension expense of \$423,563. 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<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|--|---|--|
| Differences between expected and actual experience   | \$ 392,942                                | \$ 88,277                                |
| Change of assumptions  | 247,047                                   | -  |
| Net difference between projected and actual earnings on FRS Plan investments                                     | -   | 888,771                                  |
| Changes in proportion and differences between College FRS contributions and proportionate share of contributions | 687,664                                   | -  |
| College FRS contributions subsequent to the measurement date   | 617,033                                   | -  |
| <b>Total</b>   | <u>\$ 1,944,686</u>                       | <u>\$ 977,048</u>                        |

The deferred outflows of resources related to pensions totaling \$617,033, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u>     |
|-----------------------------------|-------------------|
| 2017                              | \$ (136,990)      |
| 2018                              | (136,990)         |
| 2019                              | (136,990)         |
| 2020                              | 596,274           |
| 2021                              | 139,877           |
| Thereafter                        | 25,424            |
| <b>Total</b>                      | <u>\$ 350,605</u> |

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

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

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

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

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

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

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

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

*Sensitivity of the 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:

|  | <b>1% Decrease (6.65%)</b> | <b>Current Discount Rate (7.65%)</b> | <b>1% Increase (8.65%)</b> |
|--|----------------------------|--------------------------------------|----------------------------|
| College's proportionate share of the net pension liability | \$ 9,644,765               | \$ 3,722,085                         | \$ (1,206,557)             |

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

## **HIS Pension Plan**

*Plan Description.* The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered

retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

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

*Contributions.* The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2016, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The 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 \$193,414 for the fiscal year ended June 30, 2016.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions.* At June 30, 2016, the College reported a net pension liability of \$3,764,372 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, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to the HIS Plan actuarial valuation as of July 1, 2014. The College's proportionate share of the net pension liability was based on the College's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the College's proportionate share was 0.036911297 percent, which was an increase of 0.001131379 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the College recognized pension expense of \$315,514. In addition, the College reported deferred outflows of resources related to pensions from the following sources:

| <u>Description</u>   | <u>Deferred Outflows<br/>of Resources</u> |
|--|---|
| Change of assumptions  | \$ 296,158                                |
| Net difference between projected and actual earnings on HIS Plan investments   | 2,038                                     |
| Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions | 196,524                                   |
| College contributions subsequent to the measurement date   | 193,414                                   |
| <b>Total</b>   | <b>\$ 688,134</b>                         |

The deferred outflows of resources totaling \$193,414, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u>     |
|-----------------------------------|-------------------|
| 2017                              | \$ 86,645         |
| 2018                              | 86,645            |
| 2019                              | 86,645            |
| 2020                              | 86,230            |
| 2021                              | 86,032            |
| Thereafter                        | 62,523            |
| <b>Total</b>                      | <b>\$ 494,720</b> |

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

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

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

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

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

adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 4.29 percent from the prior measurement date.

*Sensitivity of the 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 3.8 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 (2.8 percent) or 1 percentage point higher (4.8 percent) than the current rate:

|   | <b>1%<br/>Decrease<br/>(2.8%)</b> | <b>Current<br/>Discount Rate<br/>(3.8%)</b> | <b>1%<br/>Increase<br/>(4.8%)</b> |
|---|-----------------------------------|---|-----------------------------------|
| College's proportionate share of<br>the net pension liability | \$ 4,289,326                      | \$ 3,764,372                                | \$ 3,326,638                      |

*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.

## 10. Retirement Plans – Defined Contribution Pension Plans

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. 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 2015-16 fiscal year were as follows:

| <b>Class</b>                   | <b>Percent of<br/>Gross<br/>Compensation</b> |
|--------------------------------|--|
| 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, 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the 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 \$252,922 for the fiscal year ended June 30, 2016.

**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 5.15 percent of the participant's salary to the participant's account, 2.65 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover the administrative costs, for a total of 7.8 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the 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 \$84,377 and employee contributions totaled \$49,152 for the 2015-16 fiscal year.

## **11. 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 \$200 million 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.

## 12. Functional Distribution of Operating Expenses

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

| <u>Functional Classification</u>   | <u>Amount</u>        |
|------------------------------------|----------------------|
| Instruction                        | \$ 8,889,285         |
| Public Services                    | 164,061              |
| Academic Support                   | 4,217,436            |
| Student Services                   | 3,812,235            |
| Institutional Support              | 5,991,332            |
| Operation and Maintenance of Plant | 3,935,534            |
| Scholarships and Waivers           | 3,999,590            |
| Depreciation                       | 2,192,546            |
| Auxiliary Enterprises              | 154,323              |
| <b>Total Operating Expenses</b>    | <b>\$ 33,356,342</b> |

## **OTHER REQUIRED SUPPLEMENTARY INFORMATION**

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

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(1)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>[(b-a)/c] |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 7/1/2011                       | \$ -                                   | \$ 340,619  | \$ 340,619                         | 0%                       | \$ 9,336,046              | 3.6%  |
| 7/1/2013                       | -                                      | 470,629   | 470,629                            | 0%                       | 10,841,725                | 4.3%  |
| 7/1/2015                       | -                                      | 542,169   | 542,169                            | 0%                       | 11,821,617                | 4.6%  |

Note: (1) The OPEB actuarial valuation used the projected unit credit method for the 7/1/2011 and 7/1/2013 valuations and the entry age normal method for the 7/1/2015 valuation to estimate the actuarial accrued liability.

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

|  | 2015 (1)      | 2014 (1)      | 2013 (1)      |
|--|---------------|---------------|---------------|
| College's proportion of the FRS net pension liability  | 0.028816871%  | 0.028388597%  | 0.0230143%    |
| College's proportionate share of the FRS net pension liability   | \$ 3,722,085  | \$ 1,732,122  | \$ 3,961,785  |
| College's covered-employee payroll (2)   | \$ 12,865,517 | \$ 12,444,911 | \$ 11,664,616 |
| College's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll | 28.93%        | 13.92%        | 33.96%        |
| FRS Plan fiduciary net position as a percentage of the total pension liability                                 | 92.00%        | 96.09%        | 88.54%        |

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

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

**Schedule of College Contributions –  
Florida Retirement System Pension Plan**

|  | <u>2016 (1)</u>  | <u>2015 (1)</u>  | <u>2014 (1)</u>  |
|--|------------------|------------------|------------------|
| Contractually required FRS contribution                                  | \$ 617,033       | \$ 702,580       | \$ 621,831       |
| FRS contributions in relation to the contractually required contribution | <u>(617,033)</u> | <u>(702,580)</u> | <u>(621,831)</u> |
| FRS contribution deficiency (excess)                                     | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      |
| College's covered-employee payroll (2)                                   | \$ 13,894,753    | \$ 12,865,517    | \$ 12,444,911    |
| FRS contributions as a percentage of covered-employee payroll            | 4.44%            | 5.46%            | 5.0%             |

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

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

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

|  | <u>2015 (1)</u> | <u>2014 (1)</u> | <u>2013 (1)</u> |
|--|-----------------|-----------------|-----------------|
| College's proportion of the HIS net pension liability  | 0.036911297%    | 0.035779918%    | 0.034050966%    |
| College's proportionate share of the HIS net pension liability   | \$ 3,764,372    | \$ 3,345,510    | \$ 2,964,584    |
| College's covered-employee payroll (2)   | \$ 11,215,377   | \$ 10,636,070   | \$ 9,892,723    |
| College's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll | 33.56%          | 31.45%          | 29.97%          |
| HIS Plan fiduciary net position as a percentage of the total pension liability                                 | 0.5%            | 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>2016 (1)</u>  | <u>2015 (1)</u>  | <u>2014 (1)</u>  |
|--|------------------|------------------|------------------|
| Contractually required HIS contribution                                      | \$ 193,414       | \$ 141,098       | \$ 122,570       |
| HIS contributions in relation to the contractually required HIS contribution | <u>(193,414)</u> | <u>(141,098)</u> | <u>(122,570)</u> |
| HIS contribution deficiency (excess)   | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      |
| College's covered-employee payroll (2)                                       | \$ 12,237,683    | \$ 11,215,377    | \$ 10,636,070    |
| HIS contributions as a percentage of covered-employee payroll                | 1.58%            | 1.26%            | 1.15%            |

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

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

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

The July 1, 2015, unfunded actuarial accrued liability of \$542,169 was significantly higher than the July 1, 2013, liability of \$470,629 as a result of the following:

- Demographic assumptions (rates of withdrawal, retirement, disability, and mortality) were revised to be consistent with those used for the Florida Retirement System.
- The rates of participation in the Plan were adjusted to reflect current experience.
- The assumed per capita costs of healthcare were updated.
- The rates of healthcare inflation used to project the per capita healthcare costs were revised to reflect recent experience.
- The general payroll growth rate and salary scale assumptions were revised to be consistent with the rates used by the Florida Retirement System.
- The actuarial cost method was changed from projected unit credit to entry age normal in anticipation of new disclosure requirements developed by the Governmental Accounting Standards Board.

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

*Changes of Assumptions.* The municipal rate used to determine total pension liability decreased from 4.29 percent to 3.8 percent.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lake-Sumter State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 10, 2017, 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 this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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  
February 10, 2017