

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2017-143
March 2017

EASTERN FLORIDA 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. James H. Richey served as President of Eastern Florida State College and the following individuals served as Members of the Board of Trustees:

Alan H. Landman, Chair from 8-17-15,^a Vice Chair to 8-16-15
Moses L. Harvin Sr., Vice Chair from 8-17-15
Stephen G. Charpentier, Chair and Trustee to 7-15-15
Myra Igo Haley
Dewey L. Harris
Ronald S. Howse from 7-16-15

^a Acting Chair from 7-16-15, through 8-16-15.

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

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

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EASTERN FLORIDA STATE COLLEGE
TABLE OF CONTENTS

	Page No.
SUMMARY	i
INDEPENDENT AUDITOR'S REPORT	1
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	16
Statement of Revenues, Expenses, and Changes in Net Position	18
Statement of Cash Flows	20
Notes to Financial Statements	22
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Other Postemployment Benefits Plan	42
Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan	42
Schedule of College Contributions – Florida Retirement System Pension Plan	43
Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan.....	43
Schedule of College Contributions – Health Insurance Subsidy Pension Plan.....	43
Notes to Required Supplementary Information	44
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 <i>GOVERNMENT AUDITING STANDARDS</i>	45
Internal Control Over Financial Reporting	45
Compliance and Other Matters	46
Purpose of this Report	46

SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

AUDIT OBJECTIVES AND SCOPE

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Eastern Florida State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 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 Eastern Florida 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 and other auditors 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 March 8, 2017, on our consideration of the Eastern Florida State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 8, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 and its component unit, the Eastern Florida State College Foundation, Inc. for the fiscal years ended June 30, 2016, and June 30, 2015.

FINANCIAL HIGHLIGHTS

The College's assets totaled \$168.3 million at June 30, 2016. This balance reflects a \$17.1 million, or 11.3 percent, increase as compared to the 2014-15 fiscal year, resulting from a greater amount due from the State for Public Education Capital Outlay (PECO) appropriations. While assets grew, liabilities increased by a lesser amount of \$9.9 million, or 25.6 percent, totaling \$48.6 million at June 30, 2016, compared to \$38.7 million at June 30, 2015. This change is the result of the increase in net pension liability of \$7.9 million. Additionally, the College's deferred outflows of resources increased by \$1.5 million to \$8.1 million, while deferred inflows of resources decreased by \$7.4 million to \$4.6 million related to changes in the College's proportionate share of the net pension liability at June 30, 2016. As a result, the College's net position increased by \$16.1 million, resulting in a year-end balance of \$123.1 million.

The College's operating revenues totaled \$30.6 million for the 2015-16 fiscal year, representing a 7.1 percent increase compared to the 2014-15 fiscal year due mainly to an increase in State grants and contracts. Operating expenses totaled \$112.5 million for the 2015-16 fiscal year, representing an increase of 2 percent as compared to the 2014-15 fiscal year due mainly to a \$1.1 million increase in faculty salaries and benefits and a \$0.9 million increase in spending for State grants.

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 has a deficit in the current funds-unrestricted net position of \$18.4 million resulting from recording long-term liabilities within the annually funded operational fund as required by *Government Auditing Standards*. The following table detailing the components of the College's ending net position demonstrates that the College's negative unrestricted net position was caused by long-term liabilities that will be paid over time and financed by future appropriations. The College's unencumbered balance in the Current Funds – Unrestricted as of June 30, 2016, was 8.2 percent of total funds available, which exceeded the 5 percent minimum balance as required by Florida Statutes.

Unrestricted Net Position: College

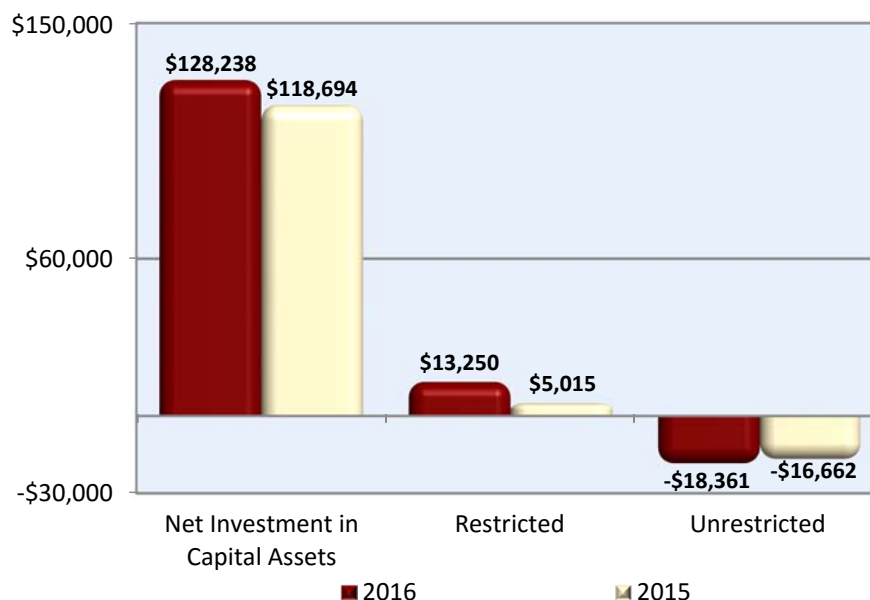
(In Thousands)

		<u>Amount</u>
Unrestricted Fund Balance		\$ 16,374
Less Amount to be Financed in the Future		
Compensated Absences Payable	\$ 9,522	-
Other Postemployment Benefits Payable	494	-
Deferred Outflows of Resources	(8,099)	-
Deferred Inflows of Resources	4,597	-
Net Pension Liability	28,221	-
		<u>34,735</u>
Total Amount to be Financed in the Future		<u>34,735</u>
Ending Unrestricted Net Position		<u><u>\$ (18,361)</u></u>

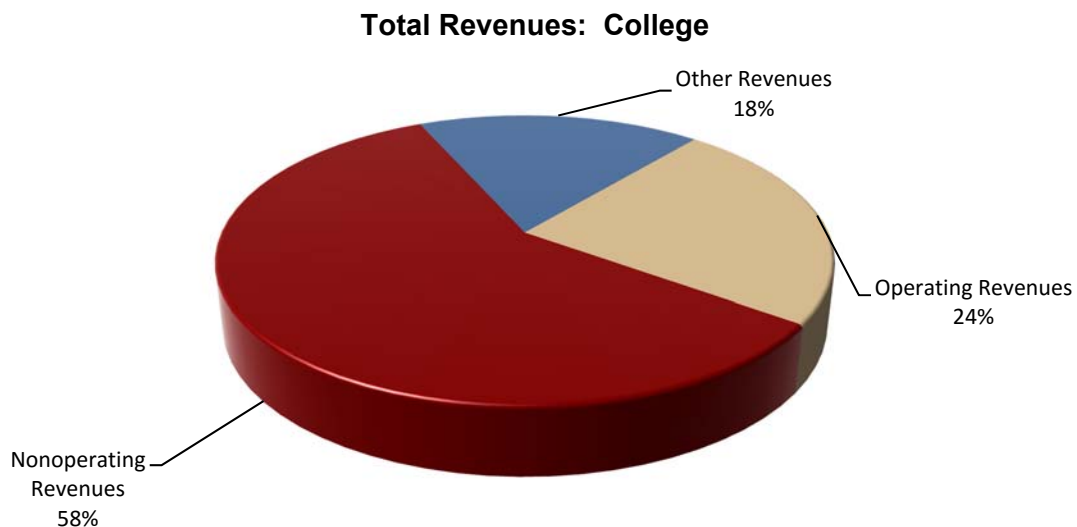
The College's comparative total net position by category for the fiscal years ended June 30, 2016, and June 30, 2015, is shown in the following graph:

Net Position: College

(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, Eastern Florida College Foundation, Inc. (Foundation). Based on the application of the criteria for determining component units, the Foundation is included within the College reporting entity as a discretely presented component unit.

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 and its component unit'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)

	College		Component Unit	
	2016	2015	2016	2015
Assets				
Current Assets	\$ 37,442	\$ 29,224	\$ 854	\$ 760
Capital Assets, Net	129,704	120,404	188	190
Other Noncurrent Assets	1,105	1,552	18,856	19,134
Total Assets	<u>168,251</u>	<u>151,180</u>	<u>19,898</u>	<u>20,084</u>
Deferred Outflows of Resources	<u>8,099</u>	<u>6,554</u>	<u>-</u>	<u>-</u>
Liabilities				
Current Liabilities	9,480	7,768	16	16
Noncurrent Liabilities	39,146	30,962	-	-
Total Liabilities	<u>48,626</u>	<u>38,730</u>	<u>16</u>	<u>16</u>
Deferred Inflows of Resources	<u>4,597</u>	<u>11,957</u>	<u>-</u>	<u>-</u>
Net Position				
Net Investment in Capital Assets	128,238	118,694	188	190
Restricted	13,250	5,015	17,686	17,749
Unrestricted	(18,361)	(16,662)	2,008	2,129
Total Net Position	<u>\$ 123,127</u>	<u>\$ 107,047</u>	<u>\$ 19,882</u>	<u>\$ 20,068</u>

The College's overall net position increased by \$16.1 million or 15 percent, due primarily to the change in amounts due from the State for building construction and the addition of a new building recorded in capital assets. Further information can be found in Note 5. of the financial statements regarding amounts due from other governmental agencies and Note 6. of the financial statements regarding capital asset changes.

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

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

The following summarizes the activities of the College and its component unit for the 2015-16 and 2014-15 fiscal years:

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

(In Thousands)

	College		Component Unit	
	2015-16	2014-15	2015-16	2014-15
Operating Revenues	\$ 30,611	\$ 28,582	\$ 132	\$ 114
Less, Operating Expenses	112,492	110,271	1,101	1,090
Operating Loss	(81,881)	(81,689)	(969)	(976)
Net Nonoperating Revenues	75,110	75,264	554	1,624
Income (Loss) Before Other Revenues	(6,771)	(6,425)	(415)	648
Other Revenues	22,851	7,624	229	63
Net Increase (Decrease) In Net Position	16,080	1,199	(186)	711
Net Position, Beginning of Year	107,047	132,824	20,068	19,357
Adjustment to Beginning Net Position (1)	-	(26,976)	-	-
Net Position, Beginning of Year, as Restated	107,047	105,848	20,068	19,357
Net Position, End of Year	<u>\$ 123,127</u>	<u>\$ 107,047</u>	<u>\$ 19,882</u>	<u>\$ 20,068</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 employer's proportionate share of the net pension liability of the defined benefit pension plans.

Operating Revenues

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

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

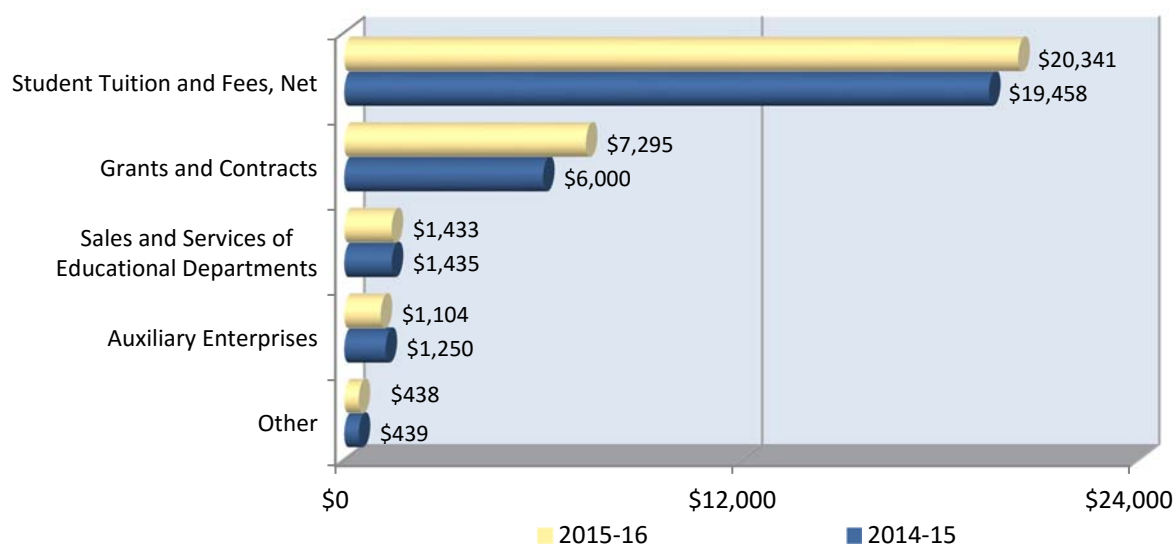
**Operating Revenues
For the Fiscal Years**

(In Thousands)

	College		Component Unit	
	2015-16	2014-15	2015-16	2014-15
Student Tuition and Fees, Net	\$ 20,341	\$ 19,458	\$ -	\$ -
Grants and Contracts	7,295	6,000	-	-
Sales and Services of Educational Departments	1,433	1,435	-	-
Auxiliary Enterprises	1,104	1,250	-	-
Other	438	439	132	114
Total Operating Revenues	<u>\$ 30,611</u>	<u>\$ 28,582</u>	<u>\$ 132</u>	<u>\$ 114</u>

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

Operating Revenues: College (In Thousands)



College operating revenue increased by \$2 million, or 7.1 percent, primarily due to an increase in State and local grants and contracts of \$2.3 million, or 108.2 percent, comprised of State Quick Response Training contracts.

Operating Expenses

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

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

Operating Expenses For the Fiscal Years

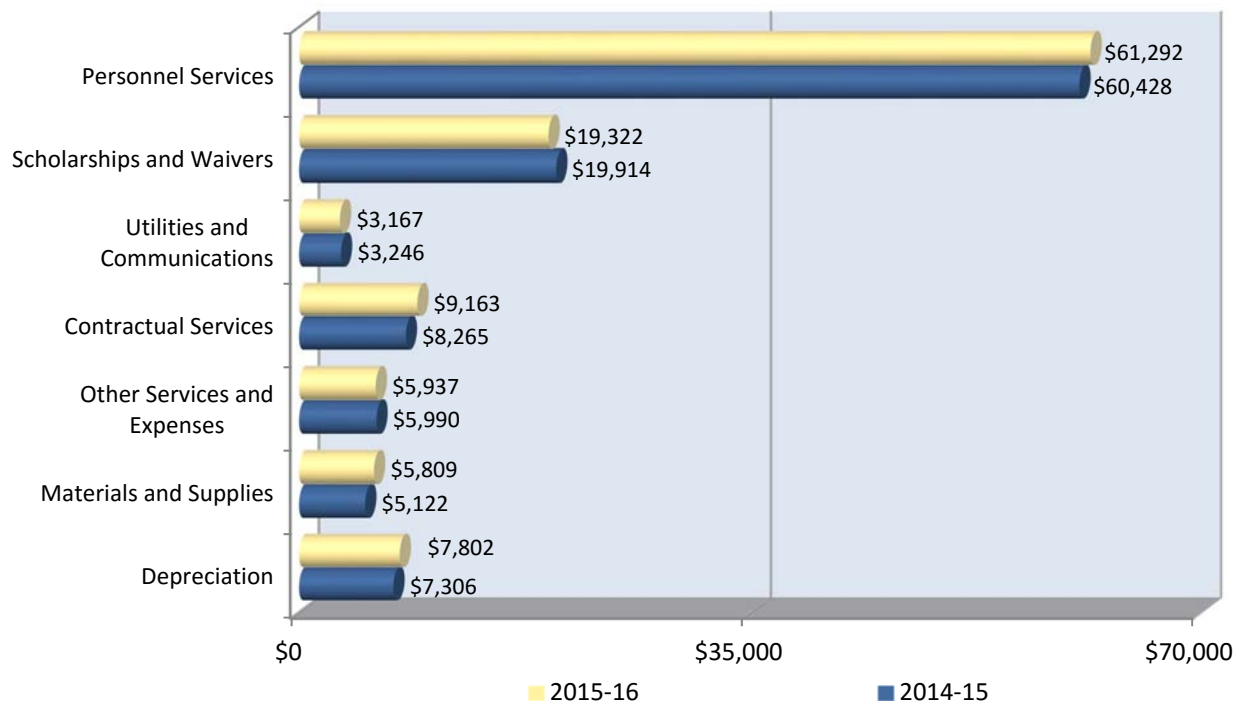
(In Thousands)

	College		Component Unit	
	2015-16	2014-15	2015-16	2014-15
Personnel Services	\$ 61,292	\$ 60,428	\$ 38	\$ 51
Scholarships and Waivers	19,322	19,914	546	563
Utilities and Communications	3,167	3,246	-	-
Contractual Services	9,163	8,265	256	256
Other Services and Expenses	5,937	5,990	179	191
Materials and Supplies	5,809	5,122	80	27
Depreciation	7,802	7,306	2	2
Total Operating Expenses	\$ 112,492	\$ 110,271	\$ 1,101	\$ 1,090

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

Operating Expenses: College

(In Thousands)



College operating expenses increased by \$2.2 million, or 2 percent, primarily due to the following factors:

- Personnel Services increased by \$0.9 million due to the faculty collective bargaining agreement and higher insurance costs.
- Contractual Services increased by \$0.9 million due to an increase in spending related to Quick Response Training grants.
- Materials and Supplies increased by \$0.7 million due to the addition of new degree programs throughout the College.

- Scholarships and Waivers decreased by \$0.6 million due to a decrease in Federal awards that students received.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2015-16 and 2014-15 fiscal years:

Nonoperating Revenues (Expenses): College		
For the Fiscal Years		
(In Thousands)		
	2015-16	2014-15
State Noncapital Appropriations	\$ 43,820	\$ 42,861
Federal and State Student Financial Aid	28,455	29,631
Gifts and Grants	2,864	2,839
Investment Income	13	10
Other Nonoperating Revenues	24	30
Loss on Disposal of Capital Assets	(2)	(11)
Interest on Capital Asset-Related Debt	(64)	(96)
Net Nonoperating Revenues	\$ 75,110	\$ 75,264

College nonoperating revenues changes were due to an increase in State noncapital appropriations of \$1 million, or 2.2 percent, offset by a decrease in Federal and State student financial aid of \$1.2 million, or 4 percent.

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:

Other Revenues: College		
For the Fiscal Years		
(In Thousands)		
	2015-16	2014-15
State Capital Appropriations	\$ 18,617	\$ 3,754
Capital Grants, Contracts, Gifts, and Fees	4,234	3,870
Total	\$ 22,851	\$ 7,624

Other revenues increased by \$15.2 million, or 199.7 percent, primarily due to an increase in State capital appropriations related to the construction of the Health Science Building on the Melbourne campus.

The Statement of Cash Flows

The statement of cash flows provides information about the College's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the College's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the College. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes the College's cash flows for the 2015-16 and 2014-15 fiscal years:

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

	<u>2015-16</u>	<u>2014-15</u>
Cash Provided (Used) by:		
Operating Activities	\$ (75,173)	\$ (75,319)
Noncapital Financing Activities	73,892	75,461
Capital and Related Financing Activities	(525)	(775)
Investing Activities	<u>62</u>	<u>76</u>
Net Decrease in Cash and Cash Equivalents	(1,744)	(557)
Cash and Cash Equivalents, Beginning of Year	<u>25,383</u>	<u>25,940</u>
Cash and Cash Equivalents, End of Year	<u>\$ 23,639</u>	<u>\$ 25,383</u>

Major sources of funds came from State noncapital appropriations (\$43.8 million), Federal and State student financial aid (\$28.4 million), Federal Direct Student Loan program receipts (\$24.7 million), net student tuition and fees (\$20.6 million), and State capital appropriations (\$10.7 million). Major uses of funds were for payments to employees and employee benefits (\$62.2 million), disbursements to students for Federal Direct Student Loans (\$25.5 million), payments to providers of goods and services (\$20.2 million), payments for scholarships (\$19.3 million), and purchases of capital assets (\$14.2 million).

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the College had \$265 million in capital assets, less accumulated depreciation of \$135.3 million, for net capital assets of \$129.7 million. Depreciation charges for the current fiscal year totaled \$7.8 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30: College

(In Thousands)

	<u>2016</u>	<u>2015</u>
Land	\$ 6,857	\$ 6,857
Construction in Progress	17,010	17,548
Buildings	94,306	84,307
Other Structures and Improvements	6,778	6,753
Furniture, Machinery, and Equipment	3,024	3,175
Assets Under Capital Leases	1,729	1,764
Capital Assets, Net	<u><u>\$129,704</u></u>	<u><u>\$120,404</u></u>

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

Capital Expenses and Commitments

Major capital expenses through June 30, 2016, were incurred for the Health Science Building (\$6.9 million) and the Multiple Projects contract (\$2.2 million), for the Melbourne Campus. The College's construction commitments at June 30, 2016, are as follows:

	<u>Amount</u> <u>(In Thousands)</u>
Total Committed	\$ 20,151
Completed to Date	<u>9,181</u>
Balance Committed	<u><u>\$ 10,970</u></u>

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

Debt Administration

As of June 30, 2016, the College had \$1.5 million in long-term debt outstanding. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt, at June 30: College

(In Thousands)

	<u>2016</u>	<u>2015</u>
SBE Capital Outlay Bonds	\$ 101	\$ 163
Capital Leases	<u>1,365</u>	<u>1,547</u>
Total	<u><u>\$ 1,466</u></u>	<u><u>\$ 1,710</u></u>

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2015-16 fiscal year, there were no bond sales, however, the College did enter into new capital leases totaling \$0.84 million. Debt repayments totaled \$62 thousand for bonds and \$1.02 million for capital

leases. Additional information about the College's long-term debt is presented in Note 8. of the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. The College's State Capital appropriations were increased by \$9.5 million for the 2016-17 fiscal year for construction of a Student Union building on the Melbourne campus. The College's State noncapital appropriations were also increased by \$2.4 million, including \$1.1 million in performance based funding. With the increase in State funding and support for the dual enrollment programs by the Brevard Public Schools, the Board of Trustees elected again to continue the 2011-12 fiscal year tuition rates in 2016-17 fiscal year. The College's current financial and capital plans indicate that the resources from cost savings and increased efficiencies will enable it to maintain consistent services over the coming year.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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

June 30, 2016

	<u>College</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 17,465,964	\$ 776,583
Restricted Cash and Cash Equivalents	5,070,740	-
Accounts Receivable, Net	1,215,907	50,401
Due from Other Governmental Agencies	13,566,687	-
Inventories	72,264	-
Prepaid Expenses	15,701	27,204
Deposits	34,201	-
Total Current Assets	<u>37,441,464</u>	<u>854,188</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,102,783	-
Investments	-	18,855,718
Restricted Investments	2,479	-
Depreciable Capital Assets, Net	105,837,406	12,597
Nondepreciable Capital Assets	23,866,636	174,984
Total Noncurrent Assets	<u>130,809,304</u>	<u>19,043,299</u>
TOTAL ASSETS	<u>168,250,768</u>	<u>19,897,487</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	8,098,797	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	3,239,729	15,862
Salary and Payroll Taxes Payable	2,716,958	-
Retainage Payable	1,020,160	-
Unearned Revenue	28,803	-
Estimated Insurance Claims Payable	144,204	-
Deposits Held for Others	1,098,937	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	49,000	-
Capital Leases Payable	581,737	-
Compensated Absences Payable	79,103	-
Net Pension Liability	520,979	-
Total Current Liabilities	<u>9,479,610</u>	<u>15,862</u>

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

June 30, 2016

	<u>College</u>	<u>Component Unit</u>
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	52,000	-
Capital Leases Payable	783,580	-
Special Termination Benefits Payable	673,211	-
Compensated Absences Payable	9,443,210	-
Other Postemployment Benefits Payable	494,337	-
Net Pension Liability	27,699,558	-
Total Noncurrent Liabilities	<u>39,145,896</u>	<u>-</u>
TOTAL LIABILITIES	<u>48,625,506</u>	<u>15,862</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	<u>4,596,956</u>	<u>-</u>
NET POSITION		
Net Investment in Capital Assets	128,237,725	187,581
Restricted:		
Nonexpendable:		
Endowment	-	10,369,253
Expendable:		
Grants and Loans	1,045,150	1,076,061
Scholarships	5,215	6,241,196
Capital Projects	12,197,298	-
Debt Service	2,479	-
Unrestricted	<u>(18,360,764)</u>	<u>2,007,534</u>
TOTAL NET POSITION	<u>\$ 123,127,103</u>	<u>\$ 19,881,625</u>

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

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

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$10,068,987	\$ 20,340,951	\$ -
Federal Grants and Contracts	2,522,793	-
State and Local Grants and Contracts	4,372,019	-
Nongovernmental Grants and Contracts	400,950	-
Sales and Services of Educational Departments	1,432,525	-
Auxiliary Enterprises	1,103,616	-
Other Operating Revenues	438,297	132,286
Total Operating Revenues	<u>30,611,151</u>	<u>132,286</u>
EXPENSES		
Operating Expenses:		
Personnel Services	61,292,172	37,584
Scholarships and Waivers	19,322,120	546,571
Utilities and Communications	3,166,931	248
Contractual Services	9,163,561	255,678
Other Services and Expenses	5,936,844	179,506
Materials and Supplies	5,808,955	79,851
Depreciation	7,801,829	1,960
Total Operating Expenses	<u>112,492,412</u>	<u>1,101,398</u>
Operating Loss	<u>(81,881,261)</u>	<u>(969,112)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	43,819,578	-
Federal and State Student Financial Aid	28,455,341	-
Gifts and Grants	2,863,883	218,859
Investment Income	13,435	331,663
Other Nonoperating Revenues	23,824	3,100
Loss on Disposal of Capital Assets	(1,456)	-
Interest on Capital Asset-Related Debt	(64,442)	-
Net Nonoperating Revenues	<u>75,110,163</u>	<u>553,622</u>
Loss Before Other Revenues	<u>(6,771,098)</u>	<u>(415,490)</u>
State Capital Appropriations	18,616,939	-
Capital Grants, Contracts, Gifts, and Fees	4,234,041	-
Other Revenues	-	228,963
Total Other Revenues	<u>22,850,980</u>	<u>228,963</u>
Increase (Decrease) in Net Position	<u>16,079,882</u>	<u>(186,527)</u>
Net Position, Beginning of Year	<u>107,047,221</u>	<u>20,068,152</u>
Net Position, End of Year	<u>\$ 123,127,103</u>	<u>\$ 19,881,625</u>

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

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

For the Fiscal Year Ended June 30, 2016

	<u>College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 20,644,476
Grants and Contracts	6,152,593
Payments to Suppliers	(20,244,241)
Payments for Utilities and Communications	(3,202,443)
Payments to Employees	(50,071,829)
Payments for Employee Benefits	(12,093,657)
Payments for Scholarships	(19,327,368)
Auxiliary Enterprises	1,103,616
Sales and Services of Educational Departments	1,432,525
Other Receipts	432,933
Net Cash Used by Operating Activities	<u>(75,173,395)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	43,819,578
Federal and State Student Financial Aid	28,354,052
Federal Direct Loan Program Receipts	24,705,362
Federal Direct Loan Program Disbursements	(25,468,808)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	2,849,612
Other Nonoperating Disbursements	(367,933)
Net Cash Provided by Noncapital Financing Activities	<u>73,891,863</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	10,722,248
Capital Grants and Gifts	4,117,116
Proceeds from Sale of Capital Assets	30,041
Purchases of Capital Assets	(14,243,529)
Principal Paid on Capital Debt and Leases	(1,086,147)
Interest Paid on Capital Debt and Leases	(64,442)
Net Cash Used by Capital and Related Financing Activities	<u>(524,713)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	48,873
Investment Income	13,435
Net Cash Provided by Investing Activities	<u>62,308</u>
Net Decrease in Cash and Cash Equivalents	(1,743,937)
Cash and Cash Equivalents, Beginning of Year	25,383,424
Cash and Cash Equivalents, End of Year	<u><u>\$ 23,639,487</u></u>

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

	<u>College</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (81,881,261)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	7,801,829
Changes in Assets, Liabilities, Deferred Outflows of Resources,	
and Deferred Inflows of Resources:	
Receivables, Net	441,675
Due from Other Governmental Agencies	(1,287,029)
Inventories	54,710
Prepaid Expenses	(2,435)
Deposits	(9,305)
Accounts Payable	499,800
Salary and Payroll Taxes Payable	48,543
Unearned Revenue	8,469
Special Termination Benefits Payable	27,847
Compensated Absences Payable	32,957
Other Postemployment Benefits Payable	52,397
Net Pension Liability	7,943,009
Deferred Outflows of Resources Related to Pensions	(1,544,130)
Deferred Inflows of Resources Related to Pensions	(7,360,471)
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (75,173,395)</u></u>

SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL
FINANCING ACTIVITIES

Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (1,456)
The College entered into two new capital leases which were recognized on the statement of net position, but are not cash transactions for the statement of cash flows.	\$ 842,883
Donations of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 116,925

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The governing body of Eastern Florida State College, a component unit of the State of Florida, is the College Board of Trustees. The Board of Trustees constitutes a corporation and is composed of five members appointed by the Governor and confirmed by the Senate. The Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by 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 Brevard County.

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

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

The Foundation is also a direct-support organization, as defined in Section 1004.70, Florida Statutes, and although legally separate from the College, is financially accountable to the College. The Foundation is managed independently, outside the College's budgeting process, and its powers generally are vested in a governing board pursuant to various State statutes. The Foundation receives, holds, invests, and administers property, and makes 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 Chief Financial Officer, Eastern Florida State College, 1519 Clearlake Road, Cocoa, Florida 32922. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2016.

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

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

- Management's Discussion and Analysis
- Basic Financial Statements:
 - o Statement of Net Position
 - o Statement of Revenues, Expenses, and Changes in Net Position
 - o Statement of Cash Flows
 - o 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 (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the College and the amount that is actually paid by

the student or the third party making payment on behalf of the student. The College applied “The Alternate Method” as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the College computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party aid.

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

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, and cash in demand accounts. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida’s multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

Capital Assets. College capital assets consist of land, construction in progress, buildings, other structures and improvements, furniture, machinery, and equipment; and assets under capital leases. These assets are capitalized and recorded at cost at the date of acquisition or at 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
- Special Use Industrial Buildings – 20 years
- Modular Buildings – 10 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - o Computer Equipment – 3 years
 - o Vehicles, Office Machines, and Educational Equipment – 5 years
 - o Furniture – 7 to 10 years
- Assets Under Capital Leases – 5 to 10 years

Land, buildings, and equipment of the College’s component unit, the Eastern Florida State College Foundation, Inc., are stated at cost except for donated property which is stated at fair market value at the date of donations, and is net of accumulated depreciation of \$106,046. The College’s component unit depreciates buildings and equipment using the straight-line method or double-declining balance over estimated useful lives ranging from 5 to 39 years.

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

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

2. 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., special termination benefits payable, compensated absences payable, other postemployment benefits payable, and net pension liabilities) in the current unrestricted funds.

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (27,749,638)
Auxiliary Funds	9,388,874
Total	<u>\$ (18,360,764)</u>

3. Investments

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

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

The College and the 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, and Level 3 inputs are significant unobservable inputs.

State Board of Administration Debt Service Accounts

The College reported investments totaling \$2,479 at June 30, 2016, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity

dates of 6 months or less, and are reported at fair value (Level 1 inputs). The College relies on policies developed by the SBA for managing interest rate risk and credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

The Foundation has the following recurring fair value measurements as of June 30, 2016:

Investments by Fair Value	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate Stock	\$ 4,086,097	\$ 4,086,097	\$ -	\$ -
Foreign Stock	1,525,515	1,525,515	-	-
Mutual Funds	11,929,912	11,929,912	-	-
Alternative Investments	1,314,194	-	-	1,314,194
Total Investments by Fair Value	\$ 18,855,718	\$ 17,541,524	\$ -	\$ 1,314,194

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

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

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

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

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Foundation will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The Foundation's investment policy does not contain requirements that would limit exposure to custodial credit risk for investments. The Foundation's alternative investments are not covered by Securities Investor Protection Corporation (SIPC) insurance, are uncollateralized, and held by the Foundation's broker-dealer (counterparty); therefore, the balance of \$1,314,194 is subject to custodial credit risk. The Foundation's remaining investments are covered by SIPC insurance.

4. Accounts Receivable

Accounts receivable represent amounts for student fee deferments, various student services provided by the College (\$1,658,165); contract and grant reimbursements due from third parties (\$23,305); and uncollected commissions for childcare services (\$15,226). These receivables are reported net of a \$480,789 allowance for doubtful accounts.

5. Due From Other Governmental Agencies

This amount consists of Public Education Capital Outlay allocations due from the State for construction of College facilities (\$11,092,198); amounts due for various State and Federal student tuition contracts (\$1,345,318); and amounts due for various State and Federal grants (\$1,129,171).

6. 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	\$ 6,856,466	\$ -	\$ -	\$ 6,856,466
Construction in Progress	17,547,487	15,501,436	16,038,753	17,010,170
Total Nondepreciable Capital Assets	\$ 24,403,953	\$ 15,501,436	\$ 16,038,753	\$ 23,866,636
Depreciable Capital Assets:				
Buildings	\$ 167,335,926	\$ 14,684,938	\$ -	\$ 182,020,864
Other Structures and Improvements	34,491,453	1,353,815	-	35,845,268
Furniture, Machinery, and Equipment	19,077,393	759,276	1,412,295	18,424,374
Assets Under Capital Leases	3,967,199	842,883	-	4,810,082
Total Depreciable Capital Assets	224,871,971	17,640,912	1,412,295	241,100,588
Less, Accumulated Depreciation:				
Buildings	83,028,558	4,686,003	-	87,714,561
Other Structures and Improvements	27,738,351	1,328,507	-	29,066,858
Furniture, Machinery, and Equipment	15,902,048	909,591	1,410,843	15,400,796
Assets Under Capital Leases	2,203,239	877,728	-	3,080,967
Total Accumulated Depreciation	128,872,196	7,801,829	1,410,843	135,263,182
Total Depreciable Capital Assets, Net	\$ 95,999,775	\$ 9,839,083	\$ 1,452	\$ 105,837,406

7. Unearned Revenue

Unearned revenue primarily consists of restricted grants and contracts received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2016, the College reported unearned revenue in the amount of \$28,803.

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	\$ 163,000	\$ -	\$ 62,000	\$ 101,000	\$ 49,000
Capital Leases Payable	1,546,581	842,883	1,024,147	1,365,317	581,737
Special Termination Benefits Payable	645,364	90,859	63,012	673,211	-
Compensated Absences Payable	9,489,356	699,592	666,635	9,522,313	79,103
Other Postemployment Benefits Payable	441,940	87,498	35,101	494,337	-
Net Pension Liability	20,277,528	19,094,633	11,151,624	28,220,537	520,979
Total Long-Term Liabilities	\$ 32,563,769	\$ 20,815,465	\$ 13,002,519	\$ 40,376,715	\$ 1,230,819

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 Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds Series 2014B, Refunding	<u>\$ 101,000</u>	2 - 5	2020

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

<u>Fiscal Year Ending June 30</u>	<u>SBE Capital Outlay Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 49,000	\$ 4,900	\$ 53,900
2018	42,000	2,450	44,450
2019	5,000	350	5,350
2020	5,000	100	5,100
Total	\$ 101,000	\$ 7,800	\$ 108,800

Capital Leases Payable. Information technology equipment, digital press equipment, security golf carts, maintenance equipment, and security cameras in the amount of \$4,810,082 are being acquired under capital lease agreements. The stated interest rates are 2.708, 3.311, 3.5, 4.35, 4.4, and 5.11 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2016, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 618,435
2018	295,707
2019	282,103
2020	186,548
2021	61,908
Total Minimum Payments	1,444,701
Less, Amount Representing Interest	79,384
Present Value of Minimum Payments	<u><u>\$ 1,365,317</u></u>

Special Termination Benefits Payable. The Board of Trustees adopted an Executive Benefit Plan for full Vice Presidents or above who are employed at the executive salary grade levels of II and III. The Plan included provisions for deferred compensation to be paid to the employee upon separation of employment through retirement, termination, or death. Accrued benefits for the 13 participants at June 30, 2016, totaled \$673,211 and are included in special termination benefits payable.

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2016, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$9,522,313. The current portion of the compensated absences liability, \$79,103, is the amount expected to be paid in the coming fiscal year, and represents payments for employees in the final year of the Deferred Retirement Option Program or those known to be retiring during the next fiscal year.

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

Plan Description. The College contributes to an agent multiple-employer defined benefit plan administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Other Postemployment Benefits Plan (OPEB 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 OPEB 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 (Medicare) program for their primary health coverage as soon as they are eligible.

Neither the College nor the Consortium issue a stand-alone annual report for the OPEB Plan and the OPEB Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend OPEB 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, 37 retirees received postemployment healthcare benefits. The College provided required contributions of \$35,101 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$236,645, which represents 0.6 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 53,941
Amortization of Unfunded Actuarial Accrued Liability	32,208
Annual Required Contribution	86,149
Interest on Net OPEB Obligation	17,678
Adjustment to Annual Required Contribution	(16,329)
Annual OPEB Cost (Expense)	87,498
Contribution Toward the OPEB Cost	(35,101)
Increase in Net OPEB Obligation	52,397
Net OPEB Obligation, Beginning of Year	441,940
Net OPEB Obligation, End of Year	<u><u>\$ 494,337</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>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013-14	\$ 116,157	34.2%	\$ 381,908
2014-15	122,552	51.0%	441,940
2015-16	87,498	40.1%	494,337

Funded Status and Funding Progress. As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$871,688 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$871,688 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$36,744,363 for the 2015-16 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.4 percent.

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. 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 calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial valuations used actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The College's OPEB actuarial valuation as of July 1, 2015, used the entry age normal actuarial cost method to estimate the actuarial accrued liability as of June 30, 2016, and the College's 2015-16 fiscal year ARC. This method was selected in anticipation of the change outlined in GASB Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 per year, 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 after 4 years for pre-Medicare and 1 year 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.

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).

The College's FRS and HIS pension expense totaled \$2,218,262 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>
Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
Regular Class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
Senior Management Service Class	2.00

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

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 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 \$2,471,957 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 \$14,026,040 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 0.108591433 percent, which was a decrease of 0.003687374 percent from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the College recognized pension expense of \$1,233,061. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,480,734	\$ 332,655
Change of assumptions	930,955	-
Net difference between projected and actual earnings on FRS Plan investments	-	3,349,183
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	1,382,836	483,944
College FRS contributions subsequent to the measurement date	2,471,957	-
Total	\$ 6,266,482	\$ 4,165,782

The deferred outflows of resources related to pensions totaling \$2,471,957, 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	\$ (879,288)
2018	(879,288)
2019	(879,288)
2020	1,883,893
2021	326,293
Thereafter	56,421
Total	\$ (371,257)

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:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
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%
Total	100%			
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:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
College's proportionate share of the net pension liability	\$ 36,344,642	\$ 14,026,040	\$ (4,546,703)

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

Payables to the Pension Plan. At June 30, 2016, the College reported a payable of \$285,975 for the outstanding amount of contributions to the pension plan required for the fiscal year ended June 30, 2016.

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 \$707,895 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 net pension liability of \$14,194,497 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 1 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 0.139183202 percent, which was a decrease of 0.004415937 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the College recognized pension expense of \$985,201. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	\$ 1,116,736	\$ -
Net difference between projected and actual earnings on HIS Plan investments	7,684	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	-	431,174
College contributions subsequent to the measurement date	707,895	-
Total	\$ 1,832,315	\$ 431,174

The deferred outflows of resources totaling \$707,895, 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:

Fiscal Year Ending June 30	Amount
2017	\$ 125,461
2018	125,461
2019	125,461
2020	123,899
2021	123,149
Thereafter	69,815
Total	\$ 693,246

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:

	1% Decrease (2.8%)	Current Discount Rate (3.8%)	1% Increase (4.8%)
College's proportionate share of the net pension liability	\$ 16,173,969	\$ 14,194,497	\$ 12,543,915

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

Payables to the Pension Plan. At June 30, 2016, the College reported a payable of \$5,035 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2016.

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:

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

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 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 \$756,608 for the fiscal year ended June 30, 2016.

11. Construction Commitments

The College's major construction commitments at June 30, 2016, are as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Health Science Building	\$ 16,400,000	\$ 6,948,741	\$ 9,451,259
Multiple Projects - Melbourne	3,751,000	2,232,701	1,518,299
Total	\$ 20,151,000	\$ 9,181,442	\$ 10,969,558

12. Operating Lease Commitments

The College leased computer equipment and vehicles under operating leases, which expire in 2020 and 2021 respectively. These leased assets and the related commitments are not reported on the College's statement of net position. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for these noncancelable operating leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 378,785
2018	369,624
2019	354,828
2020	28,605
2021	10,024
Total Minimum Payments Required	\$ 1,141,866

13. Risk Management Programs

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

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

14. Functional Distribution of Operating Expenses

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 37,391,053
Public Services	2,670,376
Academic Support	4,275,809
Student Services	10,683,154
Institutional Support	16,274,513
Operation and Maintenance of Plant	14,073,558
Scholarships and Waivers	19,322,120
Depreciation	7,801,829
Total Operating Expenses	\$ 112,492,412

15. Related Party Transactions

As permitted by Section 1004.70, Florida Statutes, the College receives direct and indirect support from a direct-support organization that does not meet the criteria, as discussed in Note 1., for inclusion in the College's financial statements as a component unit of the College. This organization is the Maxwell C. King Center for the Performing Arts, Inc. Information for the direct-support organization based on its financial statements as of June 30, 2016, is summarized in the following table:

	<u>Maxwell C. King Center for the Performing Arts, Inc.</u>
Assets	\$ 7,711,586
Liabilities	709,908
Revenues	5,690,875
Expenses	5,547,908

16. Joint Participation Agreement

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

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

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

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	\$ -	\$ 889,457	\$ 889,457	0%	\$ 35,859,896	2.5%
7/1/2013	-	1,110,475	1,110,475	0%	38,838,571	2.9%
7/1/2015	-	871,688	871,688	0%	36,744,363	2.4%

Note: (1) The College's OPEB actuarial valuation used the projected unit credit actuarial method in the 7/1/2011 and 7/1/2013 valuations and the entry age normal actuarial valuation method in 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	0.108591433%	0.112278807%	0.100509538%
College's proportionate share of the FRS net pension liability	\$ 14,026,040	\$ 6,850,658	\$ 17,302,165
College's covered-employee payroll (2)	\$ 42,430,592	\$ 42,727,570	\$ 42,125,389
College's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	33.06%	16.03%	41.07%
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, 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	\$ 2,471,957	\$ 2,647,551	\$ 2,459,382
FRS contributions in relation to the contractually required contribution	<u>(2,471,957)</u>	<u>(2,647,551)</u>	<u>(2,459,382)</u>
FRS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll (2)	\$ 42,469,356	\$ 42,430,592	\$ 42,727,570
FRS contributions as a percentage of covered-employee payroll	5.82%	6.24%	5.76%

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

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

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

	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.139183202%	0.143599139%	0.145005705%
College's proportionate share of the HIS net pension liability	\$ 14,194,497	\$ 13,426,870	\$ 12,624,653
College's covered-employee payroll (2)	\$ 42,430,592	\$ 42,727,570	\$ 42,125,389
College's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	33.45%	31.42%	29.97%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.50%	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	\$ 707,895	\$ 532,045	\$ 491,922
HIS contributions in relation to the contractually required HIS contribution	<u>(707,895)</u>	<u>(532,045)</u>	<u>(491,922)</u>
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll (2)	\$ 42,469,356	\$ 42,430,592	\$ 42,727,570
HIS contributions as a percentage of covered-employee payroll	1.67%	1.25%	1.15%

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

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

1. Schedule of Funding Progress – Other Postemployment Benefit Plan

The July 1, 2015, unfunded actuarial accrued liability of \$871,688 was \$238,787 less than the July 1, 2013, liability of \$1,110,475 as a result of the following factors:

- Demographic assumptions (rates of termination, mortality, disability, and retirement), general payroll growth and salary scale assumption were revised to be consistent with those used for the Florida Retirement System.
- The assumed per capita costs of healthcare were updated.
- The rates of healthcare inflation used to project the per capita healthcare costs were revised.
- The rates of participation in the Plan were adjusted to reflect the current experience.
- The actuarial cost method was changed to Entry Age Normal in anticipation of the required change outlined in GASB statements Nos. 74 and No. 75.

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 3.80 percent.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Eastern Florida State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 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 March 8, 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
March 8, 2017