

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

DAYTONA STATE COLLEGE

For the Fiscal Year Ended
June 30, 2017



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2016-17 fiscal year, Dr. Thomas LoBasso served as President of Daytona State College and the following individuals served as Members of the Board of Trustees:

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Mary Ann Haas	Flagler
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Anne C. Patterson	Volusia

^a Member resigned 1-18-17, position remained vacant at fiscal year end.

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 Lisa Lynch, and the audit was supervised by Keith A. Wolfe, CPA.

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

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DAYTONA STATE COLLEGE
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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Daytona 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 Daytona 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, 2017. 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 Daytona 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, 2017, 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 reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Daytona State College and of its discretely presented component unit as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 7, 2018, on our consideration of the Daytona 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 effectiveness of 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 Daytona State College's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
February 7, 2018

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, 2017, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2017, and June 30, 2016.

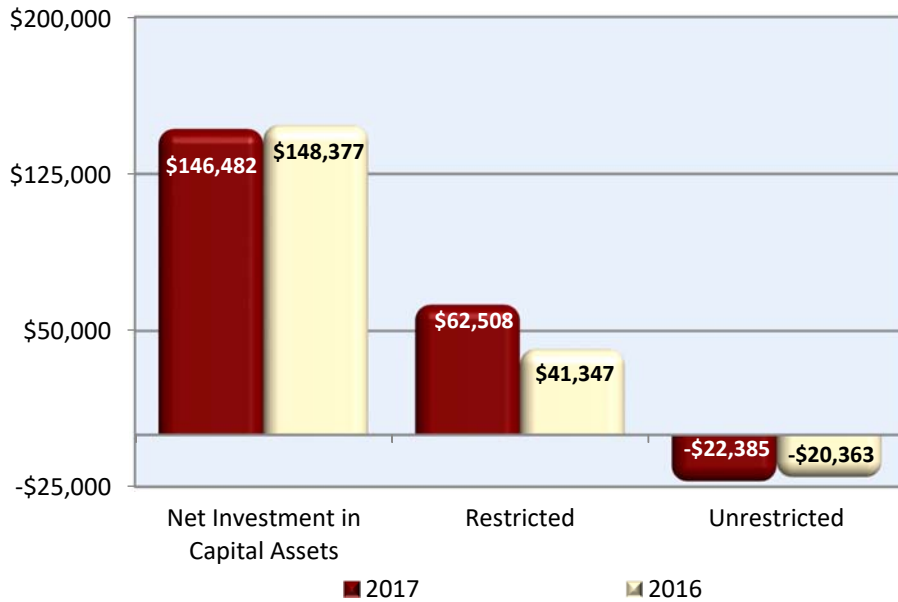
FINANCIAL HIGHLIGHTS

The College's assets and deferred outflows of resources totaled \$272.5 million at June 30, 2017. This balance reflects an increase of \$8.9 million, or 3.4 percent, as compared to the 2015-16 fiscal year, resulting from an increase in deferred outflows related to pensions. While assets and deferred outflows of resources grew, liabilities and deferred inflows of resources decreased by \$8.4 million, or 8.9 percent, totaling \$85.9 million at June 30, 2017, compared to \$94.3 million at June 30, 2016, primarily due to a \$18.9 million decrease in unearned revenue related to the capital project funding, a \$2.3 million decrease in deferred inflows related to pensions, offset by a \$12.8 million increase in the net pension liability. As a result, the College's net position increased by \$17.2 million, resulting in a year-end balance of \$186.6 million.

The College's operating revenues totaled \$26.9 million for the 2016-17 fiscal year, representing an 11.4 percent increase compared to the 2015-16 fiscal year due mainly to increases in net student tuition and fees revenue. Operating expenses totaled \$118.8 million for the 2016-17 fiscal year, representing an increase of 4.5 percent as compared to the 2015-16 fiscal year.

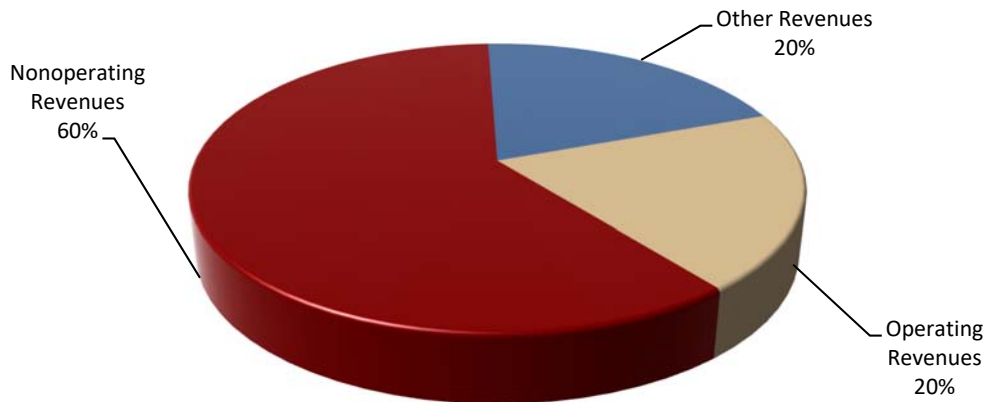
Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, is shown in the following graph:

**Net Position
(In Thousands)**



The following chart provides a graphical presentation of College revenues by category for the 2016-17 fiscal year:

**Total Revenues
2016-17 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, Daytona State 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.

This MD&A focuses on the College, excluding the discretely presented component unit. The MD&A information for the discretely presented component unit is included in its separately issued audit report.

The Statement of Net Position

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

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

Condensed Statement of Net Position at June 30

(In Thousands)

	2017	2016
Assets		
Current Assets	\$ 73,470	\$ 70,029
Capital Assets, Net	157,072	160,302
Other Noncurrent Assets	25,075	25,314
Total Assets	255,617	255,645
Deferred Outflows of Resources	16,887	7,991
Liabilities		
Current Liabilities	10,758	28,555
Noncurrent Liabilities	71,351	59,664
Total Liabilities	82,109	88,219
Deferred Inflows of Resources	3,790	6,056
Net Position		
Net Investment in Capital Assets	146,482	148,377
Restricted	62,508	41,347
Unrestricted	(22,385)	(20,363)
Total Net Position	\$ 186,605	\$ 169,361

The increase in the College's current assets was primarily caused by a \$2.4 million increase in cash and cash equivalents and a \$0.9 million increase in due from other governmental agencies. The decrease in current liabilities was primarily due to the \$18.9 million Public Education Capital Outlay (PECO) appropriation recorded as unearned revenue in the prior fiscal year that was reported as revenues during the current fiscal year. The increase in noncurrent liabilities was primarily due to the \$12.8 million increase in pension liability offset by a \$1.3 million decrease in bonds and loans payable. Deferred outflows of resources increased \$8.9 million and deferred inflows of resources decreased \$2.3 million relating to pension activity.

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

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

The following summarizes the College's activity for the 2016-17 and 2015-16 fiscal years:

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

(In Thousands)

	<u>2016-17</u>	<u>2015-16</u>
Operating Revenues	\$ 26,937	\$ 24,174
Less, Operating Expenses	<u>118,771</u>	<u>113,610</u>
Operating Loss	(91,834)	(89,436)
Net Nonoperating Revenues	<u>81,838</u>	<u>84,006</u>
Loss Before Other Revenues	(9,996)	(5,430)
Other Revenues	<u>27,240</u>	<u>5,362</u>
Net Increase (Decrease) In Net Position	17,244	(68)
Net Position, Beginning of Year	<u>169,361</u>	<u>169,429</u>
Net Position, End of Year	<u>\$ 186,605</u>	<u>\$ 169,361</u>

Other revenues increased primarily due to \$22 million of Public Education Capital Outlay (PECO) appropriations earmarked for a student center building.

Operating Revenues

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

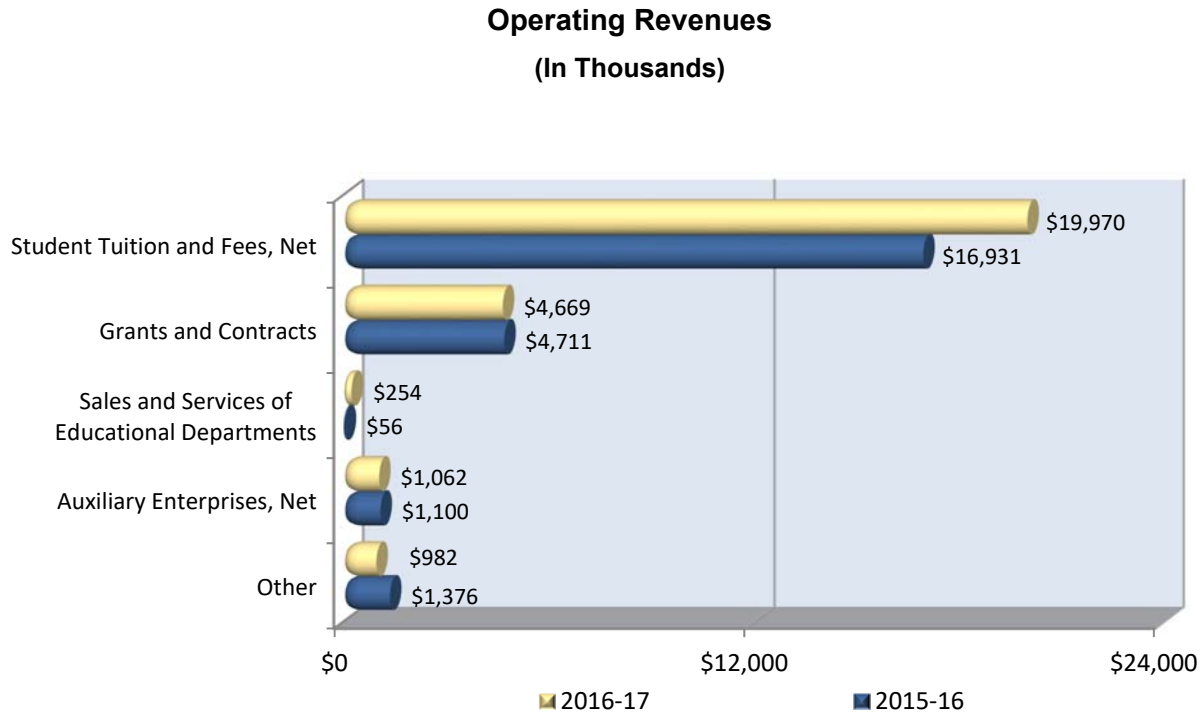
The following summarizes the operating revenues by source that were used to fund operating activities for the 2016-17 and 2015-16 fiscal years:

Operating Revenues For the Fiscal Years

(In Thousands)

	<u>2016-17</u>	<u>2015-16</u>
Student Tuition and Fees, Net	\$ 19,970	\$ 16,931
Grants and Contracts	4,669	4,711
Sales and Services of Educational Departments	254	56
Auxiliary Enterprises	1,062	1,100
Other	<u>982</u>	<u>1,376</u>
Total Operating Revenues	<u>\$ 26,937</u>	<u>\$ 24,174</u>

The following chart presents the College's operating revenues for the 2016-17 and 2015-16 fiscal years:



College operating revenue increased due to a \$3 million increase in net student tuition and fees as a result of a \$3.4 million decrease in Federal and State student financial aid, thereby decreasing the scholarship allowance.

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 2016-17 and 2015-16 fiscal years:

Operating Expenses For the Fiscal Years

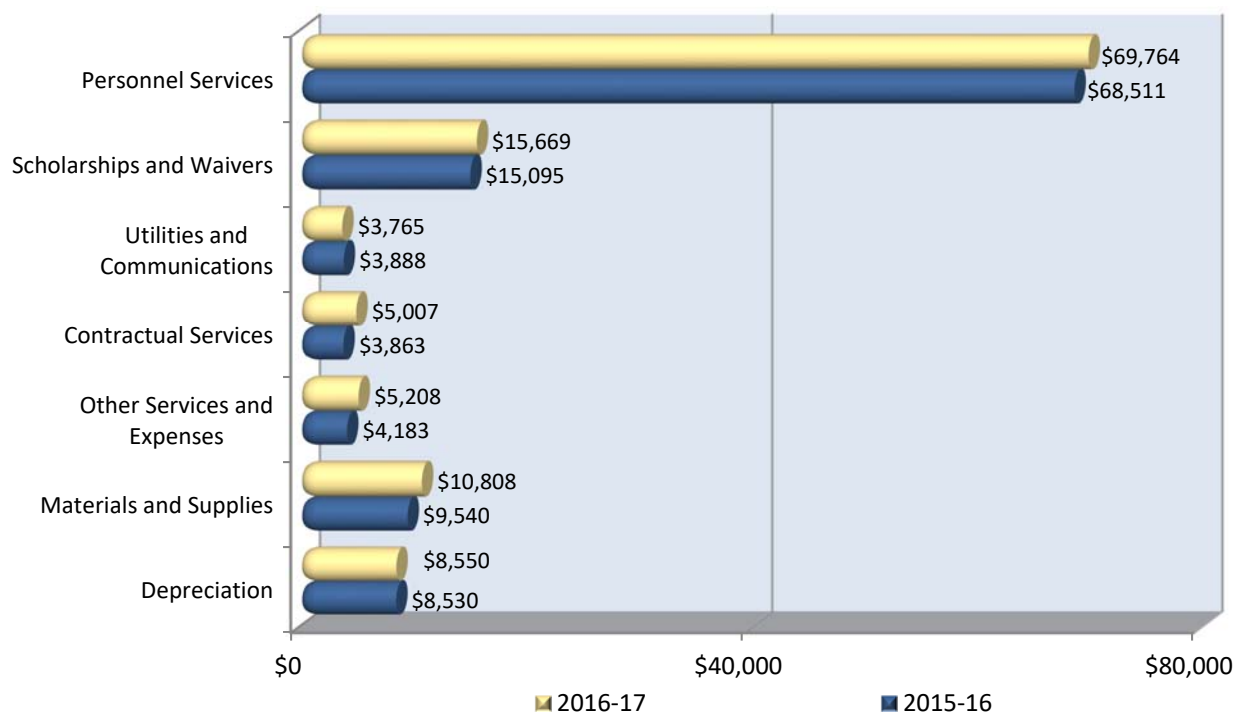
(In Thousands)

	2016-17	2015-16
Personnel Services	\$ 69,764	\$ 68,511
Scholarships and Waivers	15,669	15,095
Utilities and Communications	3,765	3,888
Contractual Services	5,007	3,863
Other Services and Expenses	5,208	4,183
Materials and Supplies	10,808	9,540
Depreciation	8,550	8,530
Total Operating Expenses	\$ 118,771	\$ 113,610

The following chart presents the College's operating expenses for the 2016-17 and 2015-16 fiscal years:

Operating Expenses

(In Thousands)



Operating expenses increased \$5.2 million due to a \$1.3 million increase in personnel services as a result of a \$2.8 million increase in pension expense, offset by decreases in salaries and benefits, a \$1.1 million increase in contractual services primarily for managed services related to a new enterprise resource planning system and a \$1.3 million increase in materials and supplies primarily for noncapital repairs and maintenance.

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 2016-17 and 2015-16 fiscal years:

	<u>2016-17</u>	<u>2015-16</u>
State Noncapital Appropriations	\$ 54,680	\$ 51,560
Federal and State Student Financial Aid	27,052	30,408
Gifts and Grants	2,010	1,871
Investment Income (Loss)	(401)	1,341
Other Nonoperating Revenues	-	25
Loss on Disposal of Capital Assets	(1,036)	(590)
Interest on Capital Asset-Related Debt	(467)	(554)
Other Nonoperating Expenses	-	(55)
Net Nonoperating Revenues	<u>\$ 81,838</u>	<u>\$ 84,006</u>

College nonoperating revenue changes were the result of the following factors:

- A decrease of \$3.4 million in Federal and State student financial aid primarily as a result of a decline of Federal Pell Grant Program awards.
- Investment income decreased by \$1.7 million primarily as a result of the \$1.1 million unrealized loss for the College's investment with the State Treasury Special Purpose Investment Account (SPIA) at fiscal year end.
- State noncapital appropriations increased \$3.1 million due to a \$1.2 million appropriation for the Beverage Institute and approximately \$1.8 million from performance-based funding.

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 2016-17 and 2015-16 fiscal years:

	<u>2016-17</u>	<u>2015-16</u>
State Capital Appropriations	\$ 24,606	\$ 1,482
Capital Grants, Contracts, Gifts, and Fees	2,634	3,880
Total	<u>\$ 27,240</u>	<u>\$ 5,362</u>

State capital appropriations increased \$23.1 million primarily due to \$22 million of Public Education Capital Outlay (PECO) appropriations earmarked for a student center building.

The Statement of Cash Flows

The statement of cash flows provides information about the College's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the College's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the College. Cash flows from capital 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 2016-17 and 2015-16 fiscal years:

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

	<u>2016-17</u>	<u>2015-16</u>
Cash Provided (Used) by:		
Operating Activities	\$ (79,405)	\$ (81,960)
Noncapital Financing Activities	83,742	84,075
Capital and Related Financing Activities	(1,744)	1,119
Investing Activities	(391)	1,351
	<u>2,202</u>	<u>4,585</u>
Net Increase in Cash and Cash Equivalents		
Cash and Cash Equivalents, Beginning of Year	<u>56,893</u>	<u>52,308</u>
Cash and Cash Equivalents, End of Year	<u>\$ 59,095</u>	<u>\$ 56,893</u>

Major sources of funds came from State noncapital appropriations (\$54.7 million), Federal and State student financial aid (\$27.1 million), net student tuition and fees (\$19.8 million), and Federal Direct Student Loan program receipts (\$16 million). Major uses of funds were for payments to employees (\$54.6 million), payments to suppliers of goods and services (\$22.4 million), disbursements to students for Federal Direct Student Loans (\$16 million), payments for student scholarships (\$15.7 million), and payments for employee benefits (\$11.7 million).

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the College had \$284.8 million in capital assets, less accumulated depreciation of \$127.7 million, for net capital assets of \$157.1 million. Depreciation charges for the current fiscal year totaled \$8.5 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30

(In Thousands)

	<u>2017</u>	<u>2016</u>
Land	\$ 15,403	\$ 15,403
Artwork	389	389
Construction in Progress	5,657	136
Buildings	125,199	131,337
Other Structures and Improvements	2,813	3,656
Furniture, Machinery, and Equipment	1,796	1,817
Data Software	5,815	7,564
Capital Assets, Net	<u>\$157,072</u>	<u>\$160,302</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, 2017, were incurred on the Student Center (\$1.7 million) and Soccer Field (\$2.2 million) projects. The College's major construction commitments at June 30, 2017, are as follows:

	<u>Amount</u> <u>(In Thousands)</u>
Total Committed	\$ 5,962
Completed to Date	<u>(3,924)</u>
Balance Committed	<u>\$ 2,038</u>

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

Debt Administration

As of June 30, 2017, the College had \$10.6 million in outstanding capital outlay bonds payable and loans payable, representing a decrease of \$1.3 million, or 11.2 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt at June 30

(In Thousands)

	<u>2017</u>	<u>2016</u>
SBE Capital Outlay Bonds	\$ 950	\$ 1,380
Loans Payable	<u>9,640</u>	<u>10,545</u>
Total	<u>\$ 10,590</u>	<u>\$ 11,925</u>

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2016-17 fiscal year, there were no bond sales and debt repayments totaled \$1.3 million.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Daytona State College's economic condition correlates to factors affecting the State of Florida and the changes in the State unemployment rate. Based on Florida's overall economic preview, the State is showing sustainable growth and the unemployment rate is between 4.5 and 4.7 percent which is in line with the rest of the nation. As the economy continues on the road to recovery and individuals re-enter the labor force, this has an adverse effect on student enrollment in State Colleges. However, to continue to ensure students have access to affordable education, the District Board of Trustees voted to maintain the current rate of tuition and fees for the seventh year, coupled with the 2 percent decrease in tuition and fees that was implemented during Spring 2016 semester. The College administration will continue the charge to increase accountability and performance outcomes to ensure students achieve academic success. Additionally, the College's current financial and capital plans indicate that the infusion of additional revenue sources, the projected budgetary cost savings, and the increased efficiencies will enable a continued focus on mission-driven services during the next fiscal 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 Senior Vice President of Finance/CFO, Daytona State College, 1200 West International Speedway Boulevard, Daytona Beach, Florida 32114.

BASIC FINANCIAL STATEMENTS

DAYTONA STATE COLLEGE A Component Unit of the State of Florida Statement of Net Position

June 30, 2017

	<u>College</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 26,579,814	\$ 48,599
Restricted Cash and Cash Equivalents	7,464,180	500,477
Accounts Receivable, Net	3,136,297	5,825
Notes Receivable, Net	59,010	-
Due from Other Governmental Agencies	35,531,738	-
Due from Component Unit/College	10,300	2,316,840
Prepaid Expenses	683,980	-
Deposits	4,494	8,100
Total Current Assets	<u>73,469,813</u>	<u>2,879,841</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	25,051,298	-
Investments	-	406,639
Restricted Investments	23,851	23,090,666
Depreciable Capital Assets, Net	135,622,875	-
Nondepreciable Capital Assets	21,449,301	-
Total Noncurrent Assets	<u>182,147,325</u>	<u>23,497,305</u>
TOTAL ASSETS	<u>255,617,138</u>	<u>26,377,146</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	16,886,802	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,981,101	142,062
Accrued Interest Payable	96,187	-
Salary and Payroll Taxes Payable	3,003,488	-
Retainage Payable	287,131	-
Due to Component Unit	2,071,083	-
Unearned Revenue	168,844	156,206
Deposits Held for Others	353,733	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	440,000	-
Loans Payable	940,000	-
Special Termination Benefits Payable	16,129	-
Compensated Absences Payable	889,554	-
Net Pension Liability	510,532	-
Total Current Liabilities	<u>10,757,782</u>	<u>298,268</u>

DAYTONA STATE COLLEGE
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2017

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	510,000	-
Loans Payable	8,700,000	-
Special Termination Benefits Payable	346,897	-
Compensated Absences Payable	10,371,089	-
Other Postemployment Benefits Payable	10,033,271	-
Net Pension Liability	41,389,422	-
Total Noncurrent Liabilities	71,350,679	-
TOTAL LIABILITIES	82,108,461	298,268
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	3,790,373	-
NET POSITION		
Net Investment in Capital Assets	146,482,176	-
Restricted:		
Nonexpendable:		
Endowment	17,211	12,839,796
Expendable:		
Grants and Loans	3,363,297	12,717,622
Scholarships	239,226	-
Capital Projects	58,864,474	-
Debt Service	23,851	-
Unrestricted	(22,385,129)	521,460
TOTAL NET POSITION	\$ 186,605,106	\$ 26,078,878

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

DAYTONA 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, 2017

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship		
Allowances of \$13,919,260	\$ 19,970,414	\$ -
Federal Grants and Contracts	3,494,864	-
State and Local Grants and Contracts	1,011,205	382,766
Nongovernmental Grants and Contracts	162,868	-
Sales and Services of Educational Departments	253,979	-
Auxiliary Enterprises	1,062,114	-
Other Operating Revenues	981,862	908,528
Total Operating Revenues	<u>26,937,306</u>	<u>1,291,294</u>
EXPENSES		
Operating Expenses:		
Personnel Services	69,764,135	377,134
Scholarships and Waivers	15,669,452	809,709
Utilities and Communications	3,765,767	-
Contractual Services	5,006,536	26,174
Other Services and Expenses	5,207,945	655,209
Materials and Supplies	10,807,547	1,661
Depreciation	8,549,726	-
Total Operating Expenses	<u>118,771,108</u>	<u>1,869,887</u>
Operating Loss	<u>(91,833,802)</u>	<u>(578,593)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	54,680,296	-
Federal and State Student Financial Aid	27,051,903	-
Gifts and Grants	2,009,770	273,007
Investment Income (Loss)	(401,384)	515,484
Net Unrealized and Realized Gains on Investments	-	919,644
Interest on Capital Asset-Related Debt	(467,498)	-
Loss on Disposal of Capital Assets	(1,035,597)	-
Net Nonoperating Revenues	<u>81,837,490</u>	<u>1,708,135</u>
Income (Loss) Before Other Revenues	<u>(9,996,312)</u>	<u>1,129,542</u>
State Capital Appropriations	24,606,347	-
Capital Grants, Contracts, Gifts, and Fees	2,633,584	-
Total Other Revenues	<u>27,239,931</u>	<u>-</u>
Increase in Net Position	17,243,619	1,129,542
Net Position, Beginning of Year	169,361,487	24,949,336
Net Position, End of Year	<u>\$ 186,605,106</u>	<u>\$ 26,078,878</u>

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

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DAYTONA STATE COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 19,798,745
Grants and Contracts	6,575,609
Payments to Suppliers	(22,353,744)
Payments for Utilities and Communications	(3,765,767)
Payments to Employees	(54,592,131)
Payments for Employee Benefits	(11,746,190)
Payments for Scholarships	(15,669,452)
Loans Issued to Students	(208,820)
Collection on Loans to Students	224,671
Auxiliary Enterprises	1,051,175
Sales and Services of Educational Departments	253,979
Other Receipts	1,027,231
	(79,404,694)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	54,680,296
Federal and State Student Financial Aid	27,051,903
Federal Direct Loan Program Receipts	15,985,135
Federal Direct Loan Program Disbursements	(15,985,135)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	2,009,770
	83,741,969
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	3,105,652
Capital Grants and Gifts	3,151,564
Purchases of Capital Assets	(6,199,042)
Principal Paid on Capital Debt	(1,335,000)
Interest Paid on Capital Debt	(467,498)
	(1,744,324)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Investments	(390,628)
	(390,628)
Net Increase in Cash and Cash Equivalents	2,202,323
Cash and Cash Equivalents, Beginning of Year	56,892,969
Cash and Cash Equivalents, End of Year	59,095,292

DAYTONA STATE COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2017

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (91,833,802)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	8,549,726
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	1,570,284
Due from Other Governmental Agencies	(1,538)
Prepaid Expenses	63,380
Accounts Payable	(1,190,906)
Salaries and Payroll Taxes Payable	1,492,882
Unearned Revenue	(7,779)
Deposits Held for Others	46,907
Special Termination Benefits Payable	28,299
Compensated Absences Payable	200,301
Other Postemployment Benefits Payable	78,351
Net Pension Liability	12,760,803
Deferred Outflows of Resources Related to Pensions	(8,895,807)
Deferred Inflows of Resources Related to Pensions	(2,265,795)
	\$ (79,404,694)
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.	\$ (1,035,597)

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 Daytona State College, a component unit of the State of Florida, is the College Board of Trustees. The Board of Trustees constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by State law and State Board of Education (SBE) rules. However, the Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State laws and SBE rules. The College serves Volusia and Flagler Counties.

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

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the Daytona 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 Senior Vice President of Finance/CFO, Daytona State College, 1200 West International Speedway Boulevard, Daytona Beach, Florida 32114. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 31, 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:
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows
 - Notes to Financial Statements
- Other Required Supplementary Information

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

The College's component unit uses the economic resources measurement focus and the accrual basis of accounting, 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, gifts and grants, and investment income (net of unrealized gains or losses on investments). Interest on capital asset-related debt is a nonoperating expense. Other revenues generally include revenues for capital construction projects.

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

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

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash placed with the State Treasury Special Purpose Investment Accounts (SPIA) and the State Board of Administration (SBA) Florida PRIME investment pool. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less, that are not held solely for income or profit to be cash equivalents. Under this definition, the College considers amounts invested in the State Treasury SPIA and Florida PRIME investment pools to be cash equivalents.

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

At June 30, 2017, the College reported as cash equivalents at fair value \$56,535,717 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities (Level 3 inputs, as discussed in Note 3.). Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. The State Treasury SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.8 years and fair value factor of 0.9923 at June 30, 2017. Participants contribute to the State Treasury SPIA investment pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2017, the College reported as cash equivalents \$407,135 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit

rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 39 days as of June 30, 2017. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at amortized cost. Section 218.409(8)(a), Florida Statutes, states that "the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days." As of June 30, 2017, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

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

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

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, loans payable, special termination benefits payable, compensated absences payable, other postemployment benefits payable, and net pension liabilities 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 positions 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 and HIS fiduciary net positions have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

2. Deficit Net Position in Individual Funds

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

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (28,311,712)
Auxiliary Funds	5,926,583
Total	\$ (22,385,129)

3. Investments

The Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; and other investments approved by the Board of Trustees as authorized by law. SBE Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments.

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

Fair Value Measurement. The College categorizes its 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 \$23,851 at June 30, 2017, in the SBA Debt Service Accounts, at fair value using quoted market process (Level 1 inputs). 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. The College relies on policies developed by the SBA for managing interest rate risk and credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

Investments in mutual funds, equity securities, and money market funds held by Daytona State College Foundation, Inc., at December 31, 2016, are reported at fair value (Level 1 inputs) as follows:

<u>Investment Type</u>	<u>Average Maturity</u>	<u>Credit Quality (1)</u>	<u>Amount</u>
Metropolitan West Total Return	7.52	AA	\$ 1,951,469
Vanguard Intermediate-Term Investment Grade	6.0	A	2,614,939
Vanguard High Yield	5.70	BB	729,279
Baird Core Plus	7.39	A	2,622,883
Vanguard REIT	N/A	(2)	851,454
Domestic Equities	(2)	(2)	8,951,797
International Equities	(2)	(2)	3,090,484
Equity Interest in Real Property	(2)	(2)	2,685,000
Total Component Unit Investments			\$ 23,497,305

Notes: (1) Represents average credit qualities for those investments within the portfolio that were assigned a credit quality rating. The credit quality ratings were obtained from various agencies including Standard & Poor's and Moody's Investors Service.

(2) Disclosure of maturity and/or credit quality is not required for these investment types.

The Foundation's investment policy covers endowments and non-endowed investments. Endowment target allocations seek no more than 60 percent in equities with the remainder in fixed-income securities, Real Estate Investment Trust/inflation hedges and/or cash and cash equivalents. The Foundation contracts with qualified investment managers to whom authority is delegated to invest and reinvest assets in accordance with the investment policy. The Foundation's investment policies do not place specific limits on maturities or credit quality.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Foundation's policy for managing its exposure for changes in interest rate is through maintaining diversification of its investments and investment maturity dates to minimize the impact of downturns in the market.

Credit Risk: Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligation. The Foundation's policy for managing its credit risk for fixed income assets shall be investment grade based on the rating of one nationally recognized statistical rating organization.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Foundation's policy does not address custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Foundation's investment policy discourages more than 5 percent of the portfolio's total assets taken at current value be invested in the securities of one issuer, other than the United States of America, its agencies or instrumentalities. The policy further discourages more than 40 percent of the portfolio's total assets to be invested in the securities of companies in any one industry.

4. Accounts Receivable

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, and contract and grant reimbursements due from third parties. The accounts receivable are reported net of a \$1,570,697 allowance for doubtful accounts.

5. Notes Receivable

Notes receivable represent student loans made under the short-term loan program of \$59,010. Notes receivable are reported net of a \$11,110 allowance for doubtful notes.

6. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of \$33,805,537 of Public Education Capital Outlay allocations due from the State for construction of College facilities and \$1,720,856 for contract and grant reimbursement due from third parties.

7. Due From and To Component Unit/College

The \$2,071,083 reported as due to component unit consists of amounts owed by the College to the Daytona State College Foundation, Inc. (Foundation) pursuant to an agreement to invest Foundation short-term cash on hand in the State Treasury SPIA and SBA Florida Prime investment accounts of the College. The \$10,300 reported as due from component unit to the College consists of student assistance related to child care services. The College's financial statements are reported for the fiscal year ended June 30, 2017. The Foundation's financial statements are reported for the fiscal year ended December 31, 2016. Accordingly, amounts reported by the College as due from and to component unit on the statement of net position do not agree with amounts reported by the component unit as due from and to the College.

8. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2017, 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	\$ 15,402,520	\$ -	\$ -	\$ 15,402,520
Artwork	389,435	-	-	389,435
Construction in Progress	135,625	5,521,721	-	5,657,346
Total Nondepreciable Capital Assets	\$ 15,927,580	\$ 5,521,721	\$ -	\$ 21,449,301
Depreciable Capital Assets:				
Buildings	\$ 204,649,992	\$ -	\$ 2,402,082	\$ 202,247,910
Other Structures and Improvements	30,952,053	-	-	30,952,053
Furniture, Machinery, and Equipment	21,092,849	859,765	585,060	21,367,554
Data Software	8,747,667	-	-	8,747,667
Total Depreciable Capital Assets	265,442,561	859,765	2,987,142	263,315,184
Less, Accumulated Depreciation:				
Buildings	73,313,101	5,076,221	1,340,337	77,048,985
Other Structures and Improvements	27,296,034	842,837	-	28,138,871
Furniture, Machinery, and Equipment	19,275,548	881,135	585,060	19,571,623
Data Software	1,183,297	1,749,533	-	2,932,830
Total Accumulated Depreciation	121,067,980	8,549,726	1,925,397	127,692,309
Total Depreciable Capital Assets, Net	\$ 144,374,581	\$ (7,689,961)	\$ 1,061,745	\$ 135,622,875

9. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2017, 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	\$ 1,380,000	\$ -	\$ 430,000	\$ 950,000	\$ 440,000
Loans Payable	10,545,000	-	905,000	9,640,000	940,000
Special Termination Benefits Payable	334,727	44,428	16,129	363,026	16,129
Compensated Absences Payable	11,060,342	1,454,046	1,253,745	11,260,643	889,554
Other Postemployment					
Benefits Payable	9,954,920	136,512	58,161	10,033,271	-
Net Pension Liability	29,139,151	24,983,223	12,222,420	41,899,954	510,532
Total Long-Term Liabilities	\$ 62,414,140	\$ 26,618,209	\$ 14,885,455	\$ 74,146,894	\$ 2,796,215

Bonds Payable. The SBE issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the SBA administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2017:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds:			
Series 2009A, Refunding	\$ 875,000	5	2019
Series 2010A, Refunding	75,000	4 - 5	2021
Total	\$ 950,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2017, 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>
2018	\$ 440,000	\$ 47,300	\$ 487,300
2019	470,000	25,300	495,300
2020	20,000	2,000	22,000
2021	20,000	1,000	21,000
Total	\$ 950,000	\$ 75,600	\$ 1,025,600

Loans Payable. Pursuant to Section 1001.64(38), Florida Statutes, the College obtained two loans to finance the cost of the acquisition and construction of various capital projects and equipment, including but not limited to, construction of the Hospitality Center, a physical plant, a shipping and receiving building, additional parking and the demolition of a building. The College borrowed \$10 million on December 23, 2005, at a stated interest rate of 3.96 percent, and \$8 million on January 10, 2006, at a stated interest rate of 4.03 percent. Both loans mature on January 1, 2026, and principal and interest payments are due the end of each quarter.

Annual requirements to amortize the outstanding loans as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 940,000	\$ 371,028	\$ 1,311,028
2019	980,000	332,914	1,312,914
2020	1,020,000	293,200	1,313,200
2021	1,055,000	251,794	1,306,794
2022	1,100,000	209,038	1,309,038
2023-2026	4,545,000	371,432	4,916,432
Total	\$ 9,640,000	\$ 1,829,406	\$ 11,469,406

Special Termination Benefits Payable. The Board of Trustees established a severance pay plan for certain College administrative employees. The plan provided that an eligible employee's total benefit could not exceed an amount equal to twice the employee's annualized base pay determined as of the date of the employee's separation from service and the payment must be paid within 60 days of the separation date. The Board of Trustees, during its December 8, 2011, meeting, terminated further accrual of benefits under this plan after July 1, 2011. As of June 30, 2017, there were two remaining employees

in the plan. Upon their separation, the two remaining employees will be paid their portion of the remaining plan liability, or \$189,568. During the 2016-17 fiscal year, there were no payments made from the Special Termination Benefits plan.

On December 8, 2011, the College Board of Trustees adopted a Deferred Compensation Plan (Compensation Plan) effective July 1, 2011. Under the Compensation Plan, the President is an eligible participant, and can determine, on a plan year by plan year basis, which other eligible employees could participate in the Compensation Plan. The Compensation Plan provides that an eligible employee's total benefit may not exceed an amount equal to twice the employee's annualized base pay determined as of the date of the employee separates from service. Effective July 1, 2011, the former President of the College became eligible to participate in the Compensation Plan. The former President separated employment on June 30, 2015, and received a lump sum payment of \$19,250, and the first of ten annual \$16,129 payments, in the 2015-16 fiscal year. During the 2016-17 fiscal year, the College paid the second of the ten annual payments to the former President, and contributed \$44,428 to the Compensation Plan for the current President, an eligible participant in the Compensation Plan, effective July 1, 2016.

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, 2017, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$11,260,643. The current portion of the compensated absences liability, \$889,554, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

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

Plan Description. The College contributes to an agent multiple-employer defined benefit plan 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 plan. 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 2016-17 fiscal year, 40 retirees received postemployment healthcare benefits. The College provided required contributions of \$58,161 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 \$387,030, which represents 0.79 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)	\$ 44,855
Amortization of Unfunded Actuarial Accrued Liability	<u>38,564</u>
Annual Required Contribution	83,419
Interest on Net OPEB Obligation	398,197
Adjustment to Annual Required Contribution	<u>(345,104)</u>
Annual OPEB Cost (Expense)	136,512
Contribution Toward the OPEB Cost	<u>(58,161)</u>
Increase in Net OPEB Obligation	78,351
Net OPEB Obligation, Beginning of Year	<u>9,954,920</u>
Net OPEB Obligation, End of Year	<u><u>\$ 10,033,271</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, 2017, 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>
2014-15	\$ 522,437	32.1%	\$ 9,904,036
2015-16	111,011	54.2%	9,954,920
2016-17	136,512	42.6%	10,033,271

Funded Status and Funding Progress. As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$1,019,408 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,019,408 and a funded ratio of 0 percent. The covered payroll

(annual payroll of active participating employees) was \$49,054,563 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.1 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial 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, 2017, and the College's 2016-17 fiscal year ARC. This method was changed from projected unit credit to entry age normal in anticipation of the changes outlined in GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement 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 6.75 percent pre-Medicare and 5.25 percent Medicare for the 2016-17 fiscal year, reduced by decrements to an ultimate rate of 5 percent in the 2020-21 fiscal year for pre-Medicare and 5 percent in the 2017-18 fiscal 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, 2017, was 20 years.

Net Pension Liability. As a participating employer in the Florida Retirement System, the College recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2017, the College's proportionate share of the net pension liabilities totaled \$41,899,954. Note 10. includes a complete discussion of defined benefit pension plans.

10. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option

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

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

The College's FRS and HIS pension expense totaled \$4,844,754 for the fiscal year ended June 30, 2017.

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 table 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>
<u>Regular Class members initially enrolled before July 1, 2011</u>	
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
<u>Regular Class members initially enrolled on or after July 1, 2011</u>	
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
<u>Senior Management Service Class</u>	2.00

As provided in Section 121.101, Florida Statutes, if the member was 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 was 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 2016-17 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.52
FRS, Senior Management Service	3.00	21.77
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	12.99
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 0.06 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 \$2,554,620 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a liability of \$26,003,993 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.102985790 percent, which was a decrease of 0.0106434 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$3,766,914. 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	\$ 1,991,065	\$ 242,115
Change of assumptions	1,573,164	-
Net difference between projected and actual earnings on FRS Plan investments	6,721,715	-
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	852,788	2,220,909
College FRS contributions subsequent to the measurement date	2,554,620	-
Total	\$ 13,693,352	\$ 2,463,024

The deferred outflows of resources totaling \$2,554,620, 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, 2018. 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>
2018	\$ 1,185,344
2019	1,185,344
2020	3,805,886
2021	2,361,288
2022	102,119
Thereafter	35,727
Total	\$ 8,675,708

Actuarial Assumptions. The total pension liability in the July 1, 2016, 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	7.60 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, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
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 7.60 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 7.60 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 (6.60 percent) or 1 percentage point higher (8.60 percent) than the current rate:

	<u>1% Decrease (6.60%)</u>	<u>Current Discount Rate (7.60%)</u>	<u>1% Increase (8.60%)</u>
College's proportionate share of the net pension liability	\$47,875,111	\$26,003,993	\$7,799,175

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, 2017, the College reported a payable of \$62,904 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2017.

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, 2017, 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, 2017, 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 \$690,933 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a net pension liability of \$15,895,961 for its proportionate share of the net pension liability. The current portion of the net pension

liability is the College's proportionate share of benefit payments expected to be paid within one year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.136392329 percent, which was a decrease of 0.005417944 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$1,077,840. 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	\$ -	\$ 36,205
Change of assumptions	2,494,480	-
Net difference between projected and actual earnings on HIS Plan investments	8,037	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	-	1,291,144
College contributions subsequent to the measurement date	690,933	-
Total	\$ 3,193,450	\$ 1,327,349

The deferred outflows of resources totaling \$690,933, 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, 2018. 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>
2018	\$ 198,725
2019	198,725
2020	197,194
2021	196,460
2022	171,323
Thereafter	212,741
Total	\$ 1,175,168

Actuarial Assumptions. The total pension liability at July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal bond rate	2.85 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 2.85 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 3.80 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 2.85 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 (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	<u>1% Decrease (1.85%)</u>	<u>Current Discount Rate (2.85%)</u>	<u>1% Increase (3.85%)</u>
College's proportionate share of the net pension liability	\$18,236,279	\$15,895,961	\$13,953,625

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, 2017, the College reported a payable of \$16,912 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2017.

11. 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 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2016-17 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, 2017, 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 \$781,068 for the fiscal year ended June 30, 2017.

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes 5.15 percent of the participant's salary to the participant's account, 2.83 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover the administrative costs, for a total of 7.99 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The College's contributions to the Program totaled \$373,385 and employee contributions totaled \$173,017 for the 2016-17 fiscal year.

Senior Management Service Local Annuity Program. Section 121.055(1)(b)2., Florida Statutes, and Florida Retirement System Rule 60S-1.0057, Florida Administrative Code, provide that local agency employees eligible for the FRS, Senior Management Service Class, may elect to withdraw from the FRS altogether and participate in a local annuity program. Pursuant thereto, the College established the Senior Management Service Class Local Annuity Program (Local Annuity Program). Employees in eligible positions are allowed to make an irrevocable election to participate in the Local Annuity Program, rather than the FRS.

The Local Annuity Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the employee. The College contributes 12.34 percent of the employee's salary to the Local Annuity Program. The participants may make contributions toward the Local Annuity Program by way of salary reduction or by deduction of a percentage of the employee's gross compensation not to exceed the percentage contributed by the employer.

The College's contributions to the Local Annuity Program totaled \$76,374 for the 2016-17 fiscal year.

12. Construction Commitments

The College's major construction commitments at June 30, 2017, were as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Student Center:			
Architect	\$ 2,215,250	\$ 824,233	\$ 1,391,017
Contractor	1,433,069	915,010	518,059
Soccer Field:			
Architect	196,000	196,000	-
Contractor	2,117,937	1,989,112	128,825
Total	\$ 5,962,256	\$ 3,924,355	\$ 2,037,901

13. Joint Participation Agreement

Daytona State College entered into a joint participation agreement with Eastern Florida 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 Federal funds that will be 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 installation of a joint-use digital antenna, and jointly leased tower space. The Colleges will equally share the lease payments and other obligations contained in the tower lease agreement. Also, the Colleges agreed to equally share the costs of maintenance and repairs of the equipment and facilities and common expenses relating to the joint-use of the lease tower, the digital antenna, the transmission lines, and other common equipment. In addition, the Colleges agreed to share any such engineering fees or consulting fees as may be necessary 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 various Federal and State grants.

14. Risk Management Programs

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

15. 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	\$ 42,226,796
Public Services	2,158,612
Academic Support	7,486,124
Student Services	12,267,795
Institutional Support	15,555,570
Operation and Maintenance of Plant	14,002,205
Scholarships and Waivers	15,669,452
Depreciation	8,549,726
Auxiliary Enterprises	854,828
Total Operating Expenses	\$ 118,771,108

16. Related Party Transactions

On July 24, 2007, the College purchased 22 condominium units for \$2,685,000 using funds provided by the Daytona State College Foundation, Inc. (Foundation). The condominiums were purchased to become dormitories for College student athletes. As part of the purchase, the College and Foundation executed a "Real Property Investment Agreement" disclosing that the Foundation was funding the purchase of real property as an investment. The agreement further provided the "College agrees that the Foundation's return on its investment (in the form of rental income received from College student athletes, via the College) shall be a minimum of five (5) percent, rate of return per year on the investment, or the greater of the annual rate of return on the Commonfund – Multi-Strategy Bond fund, one year rate, to a maximum of seven (7) percent per year." Per the agreement, the property was deeded in the College's name, while the Foundation retained a 100 percent equity interest in the real property. In the event that any of the units are sold, all sale proceeds are to be paid to the Foundation. If sales do not cover the Foundation's initial investment, the College will attempt to raise funds to match any investment shortfall.

The two parties also entered into a lease agreement, whereby the College leased to the Foundation the condominiums for 1 year, renewable annually for a total of 20 years. The purpose of the lease is to provide the Foundation with fiscal governance of its investment in the real property in the para materia with the Real Property Investment Agreement. The lease provided for an initial lease payment of \$197,057 to the Foundation, and the maintenance, repairs, and operating expenses were to be paid by the Foundation from the rental payments. Major renovations, such as re-roofing, HVAC replacement, replacement of furniture and appliances, and renovations or remodeling to the units are the responsibility of the Foundation. The Foundation funds a replacement and repair reserve account in the amount of \$30,000 per year. The College has control of the account, and may withdraw such funds as may be necessary to pay for any major renovation, replacements, or repairs. Upon expiration of the lease and all renewals, any funds remaining in this account will be remitted to the College. In its December 31, 2016, audited financial statements, the Foundation reported \$2,685,000 as restricted investments on its statement of net position. The College does not report the condominiums as assets.

17. Subsequent Events

During its November 16, 2017, meeting, the Board approved a guaranteed maximum price contract totaling \$30.2 million for the Student Center/Workforce Transition building at the Daytona Beach campus.

On December 5, 2017, the College issued a purchase order for \$30.2 million to the construction management entity.

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	\$ -	\$ 15,175,419	\$ 15,175,419	0%	\$ 45,335,410	33.5%
7/1/2013	-	5,066,557	5,066,557	0%	46,439,200	10.9%
7/1/2015	-	1,019,408	1,019,408	0%	43,472,037	2.3%

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

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

	2016 (1)	2015 (1)	2014 (1)	2013 (1)
College's proportion of the FRS net pension liability	0.102985790%	0.113629190%	0.122606733%	0.113149274%
College's proportionate share of the FRS net pension liability	\$ 26,003,993	\$ 14,676,734	\$ 7,480,814	\$ 19,478,026
College's covered payroll (2)	\$ 48,237,861	\$ 49,461,726	\$ 52,046,719	\$ 52,177,541
College's proportionate share of the FRS net pension liability as a percentage of its covered payroll	53.91%	29.67%	14.37%	37.33%
FRS Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%	88.54%

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

(2) Covered payroll includes defined benefit plan actives, investment plan members, State college system optional retirement 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

	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 2,554,620	\$ 2,511,473	\$ 2,770,376	\$ 2,685,608
FRS contributions in relation to the contractually required contribution	(2,554,620)	(2,511,473)	(2,770,376)	(2,685,608)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
College's covered payroll (2)	\$ 47,378,975	\$ 48,237,861	\$ 49,461,726	\$ 52,046,680
FRS contributions as a percentage of covered payroll	5.39%	5.21%	5.60%	5.16%

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

(2) Covered payroll includes defined benefit plan actives, investment plan members, State college system optional retirement 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>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.136392329%	0.141810273%	0.152163695%	0.155689929%
College's proportionate share of the HIS net pension liability	\$ 15,895,961	\$ 14,462,417	\$ 14,227,677	\$ 13,554,855
College's covered payroll (2)	\$ 42,112,067	\$ 43,051,270	\$ 45,252,275	\$ 45,267,404
College's proportionate share of the HIS net pension liability as a percentage of its covered payroll	37.75%	33.59%	31.44%	29.94%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%	0.99%	1.78%

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

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

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

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 690,933	\$ 699,098	\$ 542,087	\$ 521,262
HIS contributions in relation to the contractually required HIS contribution	(690,933)	(699,098)	(542,087)	(521,262)
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll (2)	\$ 41,622,453	\$ 42,112,067	\$ 43,051,270	\$ 45,252,275
HIS contributions as a percentage of covered payroll	1.66%	1.66%	1.26%	1.15%

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

(2) Covered 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 \$1 million was significantly lower than the July 1, 2013, liability of \$5.1 million as a result of the following.

- Demographic assumptions (rates of withdrawal, retirement, disability and mortality) were revised to be consistent with those used for the valuation on pension liabilities of the Florida Retirement System.
- The assumed per capita costs of healthcare were updated.
- The assumed rates of healthcare inflation used to project the per capita health care costs were revised to reflect recent experience.
- The assumed rates of participation in the Plan were adjusted to reflect anticipated experience.
- The general growth rate and salary scale assumptions were revised to be consistent with the rates used by the Florida Retirement System (FRS).
- The actuarial cost method was changed from projected unit credit to entry age normal in anticipation of new disclosure requirements developed by the Governmental Accounting Standards Board.
- The monthly healthcare contributions payable by participating retirees have been adjusted to reflect the estimated cost of each coverage tier.

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

Changes of Assumptions. The long-term expected rate of return was decreased from 7.65 percent to 7.60 percent, and the active member mortality assumption was updated.

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

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 3.80 percent to 2.85 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 Daytona 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, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 7, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
February 7, 2018