STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2019-200
March 2019

LAKE-SUMTER STATE COLLEGE

For the Fiscal Year Ended
June 30, 2018

Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2017-18 fiscal year, Dr. Stanley M. Sidor served as President of Lake-Sumter State College and the following individuals served as Members of the Board of Trustees:

	County
Peter F. Wahl, Chair from 6-27-18, Vice Chair through 6-26-18	Sumter
Emily A. Lee, Vice Chair from 6-27-18	Lake
Raymond Scott Blankenship, Chair through 6-26-18	Lake
Bryn Blaise from 1-5-18 [a]	Sumter
Marcia M. Butler	Sumter
Jennifer S. Hill	Lake
Bret D. Jones	Lake
Timothy Morris	Lake
Kelly S. Rice	Sumter

[a] Trustee position vacant through 1-4-18.

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

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

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

This report and other reports prepared by the Auditor General are available at:

FLAuditor.gov

Printed copies of our reports may be requested by contacting us at:

State of Florida Auditor General

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

LAKE-SUMTER STATE COLLEGE

TABLE OF CONTENTS

SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted a certain matter involving the College's internal control over financial reporting and its operation that we consider to be a significant deficiency, as summarized below. However, this significant deficiency is not considered to be a material weakness.

Significant Deficiency

Finding 2018-001: College procedures did not effectively provide for:

- Timely and proper reconciliations of bank account cash balances to the general ledger and financial statement account balances with reconciling items promptly identified, thoroughly investigated, adequately documented, and resolved.
- Timely adjustments to the general ledger cash account balances as a result of the bank account reconciliations.
- Appropriate and timely supervisory review and approval of the bank account reconciliations and journal entries to ensure that the reconciliations were properly performed, and the entries were accurately made.

Audit Objectives and Scope

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

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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2018. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

AUDIT METHODOLOGY

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

AUDITOR GENERAL
STATE OF FLORIDA

Sherrill F. Norman, CPA
Auditor General

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

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

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Lake-Sumter State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2018, 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 column. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lake-Sumter State College and of its discretely presented component unit as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2. to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is a change in accounting principle that addresses accounting and financial reporting for other postemployment benefits. This affects the comparability of amounts reported for the 2017-18 fiscal year with amounts reported for the 2016-17 fiscal year. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of Changes in the College's Total Other Postemployment Benefits Liability and Related Ratios**, **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 our report dated March 28, 2019, on our consideration of the Lake-Sumter State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is solely 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 Lake-Sumter State College's internal control over financial reporting and compliance.

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
March 28, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

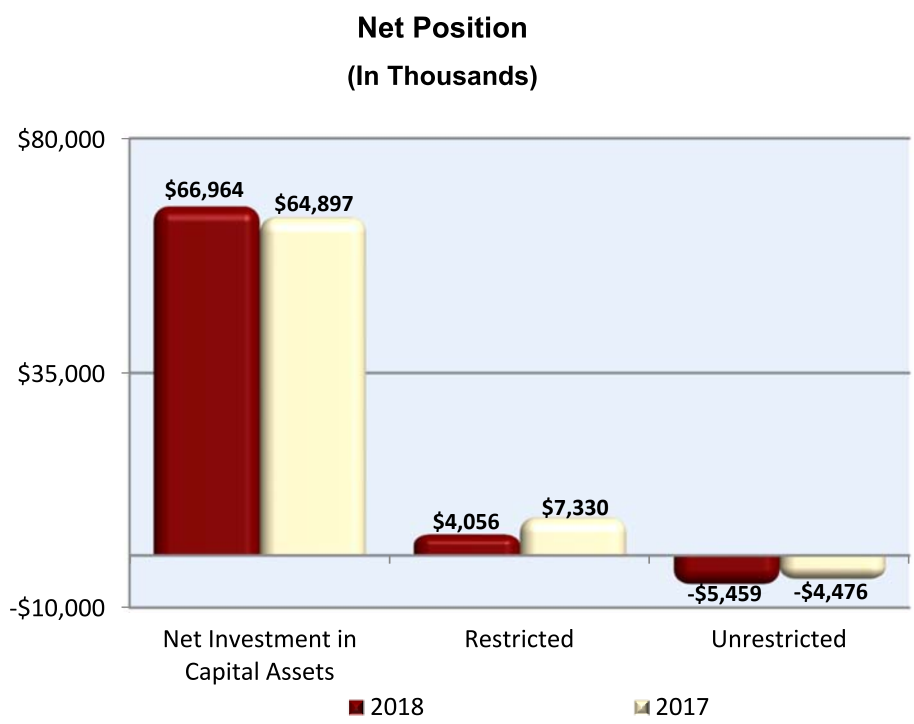
Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2018, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2018, and June 30, 2017.

FINANCIAL HIGHLIGHTS

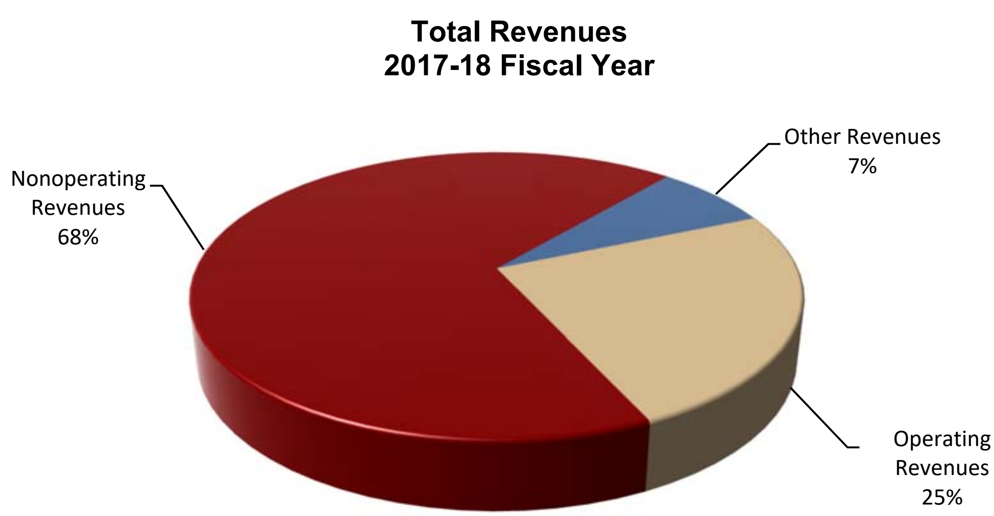
The College's assets and deferred outflows of resources totaled $82.8 million at June 30, 2018. This balance reflects a $2.6 million, or 3 percent, decrease as compared to the 2016-17 fiscal year, resulting from a $3.4 million decrease in due from other governmental agencies, a $0.1 million decrease in due from component unit, and a $0.9 million increase in accounts receivable. While assets and deferred outflows of resources declined, liabilities and deferred inflows of resources remained the same. As a result, the College's net position decreased by $2.2 million, resulting in a year-end balance of $65.6 million.

The College's operating revenues totaled $8.2 million for the 2017-18 fiscal year, representing a 10.2 percent increase compared to the 2016-17 fiscal year due mainly to a 6.9 percent increase in revenue from student tuition. Operating expenses totaled $35.1 million for the 2017-18 fiscal year, representing an increase of 5.7 percent as compared to the 2016-17 fiscal year due mainly to a significant increase in scholarship awards, material and supplies purchases, and depreciation expense following the addition of a new building at the South Lake Campus.

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, 2018, and June 30, 2017, is shown in the following graph:



The following chart provides a graphical presentation of College revenues by category for the 2017-18 fiscal year:



Overview of Financial Statements

Pursuant to GASB Statement No. 35, the College's financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, encompass the College and its component unit:

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

The MD&A focuses on the College, excluding the discretely presented component unit. MD&A information for the Foundation 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)

	2018	2017
Assets		
Current Assets	$ 6,983	$ 11,982
Capital Assets, Net	66,976	67,031
Other Noncurrent Assets	2,802	897
Total Assets	76,761	79,910
Deferred Outflows of Resources	6,000	5,434
Liabilities		
Current Liabilities	2,226	4,669
Noncurrent Liabilities	14,038	12,667
Total Liabilities	16,264	17,336
Deferred Inflows of Resources	936	257
Net Position		
Net Investment in Capital Assets	66,964	64,897
Restricted	4,056	7,330
Unrestricted	(5,459)	(4,476)
Total Net Position	$ 65,561	$ 67,751

Total assets and deferred outflows of resources decreased by $2.6 million primarily due to a $5 million decrease in current assets. While assets and deferred outflows decreased, liabilities and deferred inflows of resources combined stayed consistent.

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 2017-18 and 2016-17 fiscal years:

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

(In Thousands)

	2017-18	2016-17
Operating Revenues	$ 8,154	$ 7,398
Less, Operating Expenses	35,060	33,160
Operating Loss	(26,906)	(25,762)
Net Nonoperating Revenues	22,688	22,167
Loss Before Other Revenues	(4,218)	(3,595)
Other Revenues	2,452	3,816
Net Increase (Decrease) In Net Position	(1,766)	221
Net Position, Beginning of Year	67,751	67,530
Adjustment to Beginning Net Position (1)	(424)	-
Net Position, Beginning of Year, as Restated	67,327	67,530
Net Position, End of Year	$ 65,561	$ 67,751

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 2017-18 and 2016-17 fiscal years:

Operating Revenues
For the Fiscal Years

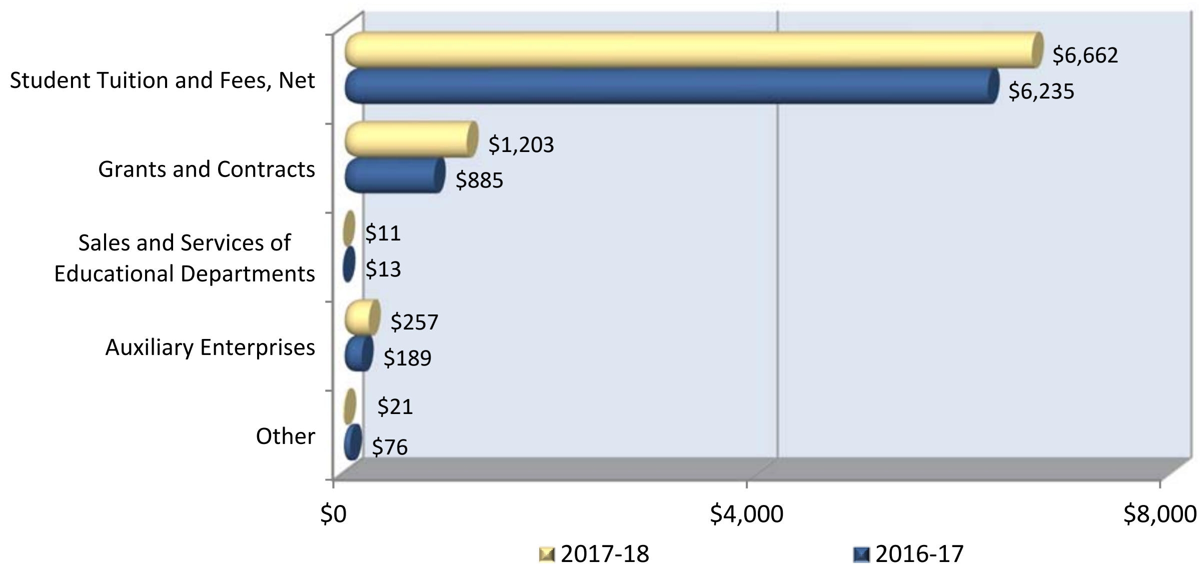
(In Thousands)

	2017-18	2016-17
Student Tuition and Fees, Net	$ 6,662	$ 6,235
Grants and Contracts	1,203	885
Sales and Services of Educational Departments	11	13
Auxiliary Enterprises	257	189
Other	21	76
Total Operating Revenues	$ 8,154	$ 7,398

The following chart presents the College's operating revenues for the 2017-18 and 2016-17 fiscal years:

Operating Revenues

(In Thousands)



The increase in College operating revenue was primarily the result of an increase in net student tuition and fees.

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 2017-18 and 2016-17 fiscal years:

Operating Expenses
For the Fiscal Years

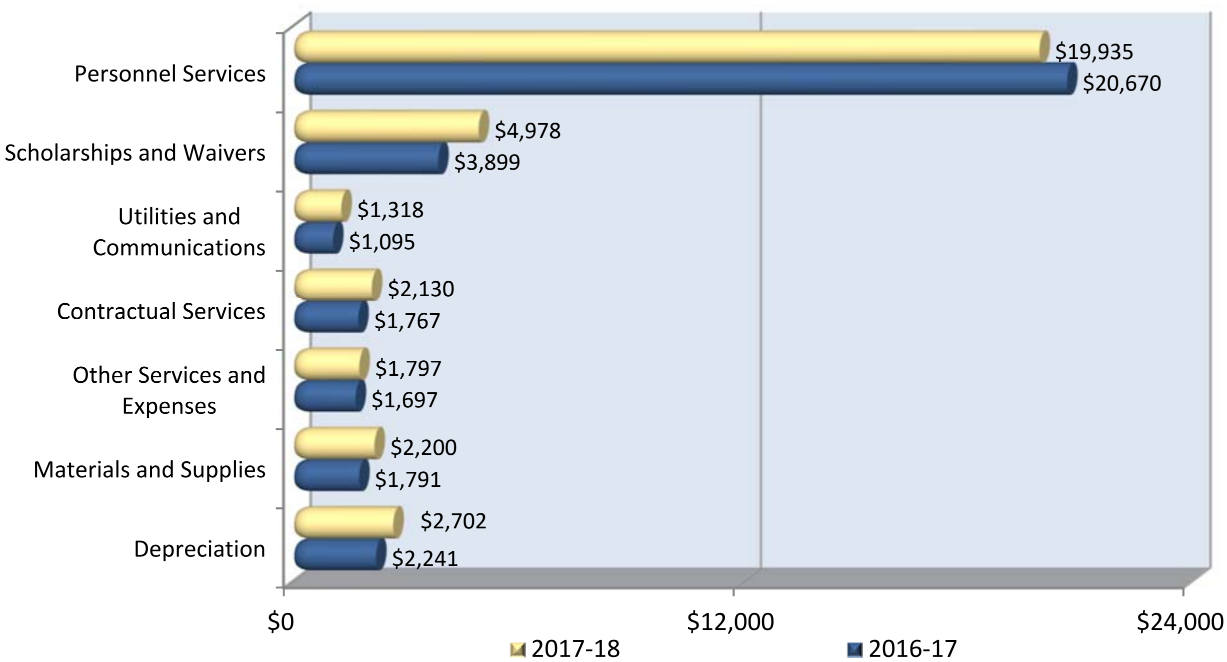
(In Thousands)

	2017-18	2016-17
Personnel Services	$ 19,935	$ 20,670
Scholarships and Waivers	4,978	3,899
Utilities and Communications	1,318	1,095
Contractual Services	2,130	1,767
Other Services and Expenses	1,797	1,697
Materials and Supplies	2,200	1,791
Depreciation	2,702	2,241
Total Operating Expenses	$ 35,060	$ 33,160

The following chart presents the College's operating expenses for the 2017-18 and 2016-17 fiscal years:

Operating Expenses

(In Thousands)



The College operating expense change was primarily the result of an increase in scholarships and waivers.

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 2017-18 and 2016-17 fiscal years:

Nonoperating Revenues (Expenses)
For the Fiscal Years

(In Thousands)

	2017-18	**2016-17**
State Noncapital Appropriations	$ 14,354	$ 14,896
Federal and State Student Financial Aid	6,624	5,781
Gifts and Grants	1,682	1,444
Investment Income	31	30
Other Nonoperating Revenues	-	21
Interest on Capital Asset-Related Debt	(3)	(5)
Net Nonoperating Revenues	$ 22,688	$ 22,167

The College nonoperating revenue change was the result of an increase in student financial aid.

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 2017-18 and 2016-17 fiscal years:

Other Revenues
For the Fiscal Years

(In Thousands)

	2017-18	**2016-17**
State Capital Appropriations	$ 492	$ 3,031
Capital Grants, Contracts, Gifts, and Fees	1,960	785
Total	$ 2,452	$ 3,816

Other revenues decreased by $1.4 million primarily from the decrease in Public Educational Capital Outlay (PECO) funding.

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 2017-18 and 2016-17 fiscal years:

Condensed Statement of Cash Flows
For the Fiscal Years

(In Thousands)

	2017-18	**2016-17**
Cash Provided (Used) by:		
Operating Activities	$ (24,216)	$ (24,386)
Noncapital Financing Activities	22,918	21,929
Capital and Related Financing Activities	693	(842)
Investing Activities	31	30
Net Decrease in Cash and Cash Equivalents	(574)	(3,269)
Cash and Cash Equivalents, Beginning of Year	7,532	10,801
Cash and Cash Equivalents, End of Year	$ 6,958	$ 7,532

Major sources of funds came from State noncapital appropriations ($14.4 million), Federal and State student financial aid ($6.9 million), net student tuition and fees ($5.7 million), Federal Direct Student Loan program receipts ($2.2 million), and grants and contracts ($1.4 million). Major uses of funds were for payments to employees and for employee benefits ($19.4 million), payments to suppliers ($6.1 million), payments for scholarships ($5 million), disbursements to students for Federal Direct Student Loans ($2.2 million), and payments for utilities and communication ($1.3 million).

Changes in cash and cash equivalents primarily resulted from a decrease of PECO funding.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the College had $102 million in capital assets, less accumulated depreciation of $35 million, for net capital assets of $67 million. Depreciation charges for the current fiscal year totaled $2.7 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)

	2018	**2017**
Land	$ 6,515	$ 6,515
Artwork	-	12
Construction in Progress	2	12,849
Buildings	58,788	45,943
Other Structures and Improvements	708	790
Furniture, Machinery, and Equipment	963	922
Capital Assets, Net	$ 66,976	$ 67,031

Debt Administration

As of June 30, 2018, the College had $12 thousand in State Board of Education (SBE) capital outlay bonds, a decrease of $48 thousand, or 80 percent, from the prior fiscal year. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the 2018-19 fiscal year. In response, the Board of Trustees did not increase the tuition rate. The College's current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services.

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 Dr. Heather Bigard, Vice President for Administrative and Financial Services, Lake-Sumter State College, 9501 US HWY 441, Leesburg, Florida 34788.

THIS PAGE INTENTIONALLY LEFT BLANK

LAKE-SUMTER STATE COLLEGE
A Component Unit of the State of Florida
Statement of Net Position

June 30, 2018

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 3,198,560	$ 4,212,429
Restricted Cash and Cash Equivalents	960,323	-
Investments	-	8,165,524
Accounts Receivable, Net	1,395,726	15,000
Due from Other Governmental Agencies	980,526	-
Due from Component Unit	164,674	-
Prepaid Expenses	283,658	11,000
Total Current Assets	6,983,467	12,403,953
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	2,799,341	-
Restricted Investments	-	6,595,425
Depreciable Capital Assets, Net	60,458,753	287,182
Nondepreciable Capital Assets	6,516,993	348,872
Other Assets	2,397	-
Irrevocable Split-Interest Agreement	-	1,162,972
Total Noncurrent Assets	69,777,484	8,394,451
TOTAL ASSETS	76,760,951	20,798,404
DEFERRED OUTFLOWS OF RESOURCES		
Other Postemployment Benefits	50,872	-
Pensions	5,948,693	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,999,565	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	295,029	-
Salary and Payroll Taxes Payable	1,209,543	-
Due to Other Governmental Agencies	149,422	-
Due to College	-	946
Unearned Revenue	-	74,650
Deposits Held for Others	190,434	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	6,000	-
Compensated Absences Payable	215,879	-
Other Postemployment Benefits Payable	50,872	-
Net Pension Liability	109,060	-
Total Current Liabilities	2,226,239	75,596

LAKE-SUMTER STATE COLLEGE
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2018

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	6,000	-
Compensated Absences Payable	1,227,245	-
Other Postemployment Benefits Payable	594,224	-
Net Pension Liability	12,210,033	-
Total Noncurrent Liabilities	14,037,502	-
TOTAL LIABILITIES	16,263,741	75,596
DEFERRED INFLOWS OF RESOURCES		
Other Postemployment Benefits	32,203	-
Pensions	903,427	-
Deferred Inflows - Irrevocable Split-Interest Agreements	-	1,162,972
TOTAL DEFERRED INFLOWS OF RESOURCES	935,630	1,162,972
NET POSITION		
Net Investment in Capital Assets	66,963,747	636,054
Restricted:		
Nonexpendable:		
Endowment	-	6,595,424
Expendable:		
Endowment	-	3,275,815
Grants and Loans	307,886	-
Scholarships	57,447	4,220,404
Capital Projects	3,690,324	2,216,468
Debt Service	491	-
Other	-	2,038,388
Unrestricted	(5,458,750)	577,283
TOTAL NET POSITION	$ 65,561,145	$ 19,559,836

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

THIS PAGE INTENTIONALLY LEFT BLANK

LAKE-SUMTER STATE COLLEGE
A Component Unit of the State of Florida
Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended June 30, 2018

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $2,054,064	$ 6,662,169	$ -
Federal Grants and Contracts	74,759	-
State and Local Grants and Contracts	1,091,577	-
Nongovernmental Grants and Contracts	36,745	-
Sales and Services of Educational Departments	10,519	-
Auxiliary Enterprises	257,419	-
Other Operating Revenues	20,467	1,378,758
Total Operating Revenues	8,153,655	1,378,758
EXPENSES		
Operating Expenses:		
Personnel Services	19,934,216	247,247
Scholarships and Waivers	4,977,742	471,748
Utilities and Communications	1,318,390	-
Contractual Services	2,129,544	57,196
Other Services and Expenses	1,797,327	483,607
Materials and Supplies	2,200,190	42,847
Depreciation	2,701,871	8,974
Total Operating Expenses	35,059,280	1,311,619
Operating Income (Loss)	(26,905,625)	67,139
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	14,354,000	-
Federal and State Student Financial Aid	6,624,200	-
Gifts and Grants Received for Other Than Capital or Endowment Purposes	1,681,786	-
Investment Income	31,017	379,171
Net Gain on Investments	-	2,002,690
Interest on Capital Asset-Related Debt	(2,820)	-
Net Nonoperating Revenues	22,688,183	2,381,861
Income (Loss) Before Other Revenues	(4,217,442)	2,449,000
State Capital Appropriations	491,757	-
Capital Grants, Contracts, Gifts, and Fees	1,960,128	-
Additions to Endowments	-	712,342
Total Other Revenues	2,451,885	712,342
Increase (Decrease) in Net Position	(1,765,557)	3,161,342
Net Position, Beginning of Year	67,751,023	16,398,494
Adjustment to Beginning Net Position	(424,321)	-
Net Position, Beginning of Year, as Restated	67,326,702	16,398,494
Net Position, End of Year	$ 65,561,145	$ 19,559,836

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

LAKE-SUMTER STATE COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2018

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	$ 5,669,724
Grants and Contracts	1,448,095
Payments to Suppliers	(6,106,326)
Payments for Utilities and Communications	(1,318,390)
Payments to Employees	(14,997,708)
Payments for Employee Benefits	(4,355,902)
Payments for Scholarships	(4,977,742)
Auxiliary Enterprises	263,325
Sales and Services of Educational Departments	10,519
Other Receipts	148,718
Net Cash Used by Operating Activities	(24,215,687)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	14,354,002
Federal and State Student Financial Aid	6,882,000
Federal Direct Loan Program Receipts	2,187,876
Federal Direct Loan Program Disbursements	(2,187,876)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	1,681,786
Net Cash Provided by Noncapital Financing Activities	22,917,788
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	3,579,867
Capital Grants and Gifts	1,087,978
Purchases of Capital Assets	(3,923,907)
Principal Paid on Capital Debt and Leases	(48,000)
Interest Paid on Capital Debt and Leases	(2,820)
Net Cash Provided by Capital and Related Financing Activities	693,118
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	31,017
Net Cash Provided by Investing Activities	31,017
Net Decrease in Cash and Cash Equivalents	(573,764)
Cash and Cash Equivalents, Beginning of Year	7,531,988
Cash and Cash Equivalents, End of Year	$ 6,958,224

LAKE-SUMTER STATE COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)

For the Fiscal Year Ended June 30, 2018

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (26,905,625)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,701,871
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	(627,650)
Prepaid Expenses	(80,556)
Accounts Payable	121,128
Salaries and Payroll Taxes Payable	(552,117)
Deposits Held for Others	58,676
Compensated Absences Payable	162,647
Other Postemployment Benefits Payable	(19,110)
Net Pension Liability	811,176
Deferred Outlfows of Resources Related to Pensions	(514,159)
Deferred Inflows of Resources Related to Pensions	646,701
Deferred Outflows of Resources Related to Other Postemployment Benefits	(50,872)
Deferred Inflows of Resources Related to Other Postemployment Benefits	32,203
NET CASH USED BY OPERATING ACTIVITIES	$ (24,215,687)

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

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

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

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public and can be obtained from the Vice President for Administrative and Financial Services, Lake-Sumter State College, 9501 US HWY 441, Leesburg, Florida 34788. 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, 2017.

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

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

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

The College's component unit uses the economic resources measurement focus and accrual basis of accounting, 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, and investment income. 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. The College calculated its scholarship allowance by identifying amounts within the student accounts receivable system paid by student financial aid for tuition and fees. To the extent that these resources are used to pay student charges, the College records a scholarship allowance against student tuition and fees.

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

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

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

At June 30, 2018, the College reported as cash equivalents at fair value $1,699,149 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 5.). 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 investment pool carried a credit rating of A+f by Standard & Poor's, had an effective duration of 3 years and fair value factor of 0.9872 at June 30, 2018. 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 balance. 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, 2018, the College reported as cash equivalents $48,900 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 30 days as of June 30, 2018. 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, provides 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, 2018, 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, construction in progress, buildings, other structures and improvements, and furniture, machinery, and equipment. These assets are capitalized and recorded at cost at the date of acquisition or at acquisition value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of $5,000 for tangible personal property and $25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

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

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, compensated absences payable, other postemployment benefits payable, and net pension 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. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

2. Reporting Change

The College implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. This statement addresses accounting and financial reporting for postemployment benefits other than pensions (OPEB) provided to employees of state and local government employers; establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses; requires governments to report a liability, deferred outflows of resources, deferred inflows of resources, and expenses on the face of the financial statement for the OPEB they provide; and requires more extensive note disclosures and supplementary information about a government's OPEB liability.

3. Adjustment to Beginning Net Position

The beginning net position of the College was decreased by $424,321 due to implementation of GASB Statement No. 75. The College's total OPEB liability reported at June 30, 2017, increased by $473,052 and related deferred outflows was established in the amount of $48,731, as of July 1, 2017, due to the transition in the valuation methods under GASB Statement No. 45 to GASB Statement No. 75.

4. 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, OPEB payable, and net pension liabilities) in the current unrestricted funds.

Fund	Net Position
Current Funds - Unrestricted	$ (6,394,530)
Auxiliary Funds	935,780
Total	$ (5,458,750)

5. Investments – Component Unit

Investments held by the Foundation at December 31, 2017, are all Level 1 inputs reported at fair value, as follows:

Investment Type	Fair Value	Maturities In Years 1 - 5	6 - 10	More than 10
Investment in Debt Obligations:				
United States Government Obligations	$ 204,121	$ 181,706	$ -	$ 22,415
Corporate Bonds	4,867,062	2,610,687	2,085,368	171,007
Total Investment in Debt Obligations	5,071,183	$ 2,792,393	$ 2,085,368	$ 193,422
Other Investments:				
Equities	9,689,766			
Total Component Unit Investments	$ 14,760,949			

The Foundation categorizes the fair measurements of its investments based on the hierarchy established by GAAP. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: 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. The Foundation does not have any investments measured using Level 2 or 3 inputs.

Fair value measurements of the Foundation's investments at December 31, 2017, are as follows:

Investments	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities:				
Government Obligations	$ 204,121	$ 204,121	$ -	$ -
Corporate Bonds	4,666,254	4,666,254	-	-
Foreign Bonds	200,808	200,808	-	-
Total Debt Securities	5,071,183	5,071,183	-	-
Equity Securities:				
Equities	9,559,114	9,559,114	-	-
ETF Closed End Equity Funds	56,324	56,324	-	-
Real Estate Investment Trusts	74,328	74,328	-	-
Total Equity Securities	9,689,766	9,689,766	-	-
Total Investments	$ 14,760,949	$ 14,760,949	$ -	$ -

The Foundation mitigates risk by utilizing investment managers to build a portfolio with the right risk profile.

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

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy does not limit investment maturities except with respect to cash equivalents, which must have a maximum average maturity of less than 1 year. The

Foundation manages its exposure to fair value losses from increasing interest rates through the segmented time distribution method.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's investment policy limits its fixed income investments to an overall weighted average credit rating of "A" or better by Moody's or Standard & Poor's. No more than 15 percent of the fixed income portion of the portfolio shall be rated below investment grade (below Baa/BBB). All commercial paper investments must have a minimum rating of A1/P1 by Standard & Poor's and Moody's, respectively. Obligations of the United States Government and obligations explicitly guaranteed by the United States Government are not considered to have credit risk. At December 31, 2017, the Foundation's investments in bonds and notes had credit quality ratings by nationally-recognized rating agencies ranging from Baa1 to Aaa by Moody's and from BBB+ to AAA by Standard & Poor's.

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Foundation's investment in a single issuer. The Foundation's investment policy limits investments in any one company to no more than 7 percent of the equity portion of its portfolio and no more than 10 percent of the fixed income portion of its portfolio, and the equity portion of the portfolio must maintain a minimum of 20 positions, with no position of any one issuer exceeding 8 percent of the manager's total portfolio. Securities issued by the United States Government or its agencies are not subject to these limitations. The policy also provides that no more than 5 percent of the portfolio may be invested in commercial paper of any one issuer, and no more than $3,000,000 in bank certificates of deposit of any single issuer, unless the investments are fully collateralized by United States Treasury or agency securities. The policy further limits investments in any one economic sector to no more than 10 percent of the equity portion of the portfolio may be in American Depository Receipts, and no more than 60 percent of the fixed income portion of the portfolio may be invested in either corporate or mortgage-backed securities.

6. 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 $66,287 allowance for doubtful accounts.

7. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of $890,983 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

8. Due From and To Component Unit/College

The $164,674 reported as amount due from component unit consists of amounts owed to the College by the Foundation for scholarships, donations for construction, and student aid. The College's financial statements are reported for the fiscal year ended June 30, 2018. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2017. 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.

9. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2018, is shown in the following table:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 6,514,755	$ -	$ -	$ 6,514,755
Artwork	12,188	-	12,188	-
Construction in Progress	12,848,867	1,267,240	14,113,869	2,238
Total Nondepreciable Capital Assets	$ 19,375,810	$ 1,267,240	$ 14,126,057	$ 6,516,993
Depreciable Capital Assets:				
Buildings	$ 71,088,510	$ 14,810,734	$ -	$ 85,899,244
Other Structures and Improvements	5,325,564	99,449	-	5,425,013
Furniture, Machinery, and Equipment	4,704,860	674,694	1,249,646	4,129,908
Total Depreciable Capital Assets	81,118,934	15,584,877	1,249,646	95,454,165
Less, Accumulated Depreciation:				
Buildings	25,145,804	1,965,627	-	27,111,431
Other Structures and Improvements	4,534,945	181,701	-	4,716,646
Furniture, Machinery, and Equipment	3,782,744	554,543	1,169,952	3,167,335
Total Accumulated Depreciation	33,463,493	2,701,871	1,169,952	34,995,412
Total Depreciable Capital Assets, Net	$ 47,655,441	$ 12,883,006	$ 79,694	$ 60,458,753

10. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2018, is shown in the following table:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$ 60,000	$ -	$ 48,000	$ 12,000	$ 6,000
Compensated Absences Payable	1,280,477	212,490	49,843	1,443,124	215,879
Other Postemployment Benefits Payable (1)	664,206	65,525	84,635	645,096	50,872
Net Pension Liability	11,507,917	6,094,914	5,283,738	12,319,093	109,060
Total Long-Term Liabilities	$ 13,512,600	$ 6,372,929	$ 5,466,216	$ 14,419,313	$ 381,811

(1) OPEB Payable beginning balance adjusted for adoption of GASB Statement No. 75, as described in Note 3.

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, 2018:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2014B	$ 12,000	2 - 5	2020

Annual requirements to amortize all bonded debt outstanding as of June 30, 2018, are as follows:

	SBE Capital Outlay Bonds		
Ending June 30	**Principal**	**Interest**	**Total**
2019	$ 6,000	$ 420	$ 6,420
2020	6,000	120	6,120
Total	$ 12,000	$ 540	$ 12,540

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, 2018, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled $1,443,124. The current portion of the compensated absences liability, $215,879, 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for other postemployment benefits administered by the Florida College System Risk Management Consortium.

General Information about the OPEB Plan

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the Florida College System Risk Management Consortium that provides OPEB for all employees who satisfy the College's retirement eligibility provisions. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the 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 coverage as soon as they are eligible. The OPEB Plan contribution requirements and benefit terms of the College and the OPEB Plan members are established and may be amended by action from the Board. No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided. The OPEB Plan provides healthcare benefits for retirees and their dependents. The OPEB Plan only provides an implicit subsidy as described above.

Employees Covered by Benefit Terms. At June 30, 2017, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	18
DROP Members	4
Active Employees	250
Total	272

Total OPEB Liability

The College's total OPEB liability of $645,096 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.60 percent
Real wage growth	0.65 percent
Wage Inflation	3.25 percent
Salary increases, including wage inflation	
Regular Employees	4.00 percent to 7.80 percent
Senior Management	4.70 percent to 7.10 percent
Municipal Bond Index Rate	
Prior Measurement Date	3.01 percent
Measurement Date	3.56 percent
Healthcare Cost Trends	
Pre-Medicare	7.50 percent for 2017, decreasing to an ultimate rate of 5.00 percent by 2023
Medicare	5.50 percent for 2017, decreasing to an ultimate rate of 5.00 percent by 2020

The discount rate was based on the July average of the Bond Buyer General Obligation 20-year Municipal Bond Index.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for FRS experience and generational mortality improvements using Scale MP-2014.

The demographic actuarial assumptions for mortality, retirement, disability incidence, and withdrawal used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013, adopted by the FRS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017, valuation were based on a review of recent plan experience done concurrently with the June 30, 2017, valuation.

Changes in the Total OPEB Liability

	Amount
Balance at 6/30/17, as Restated	$ 664,206
Changes for the year:	
Service Cost	46,260
Interest	19,265
Changes in Assumptions or Other Inputs	(35,904)
Benefit Payments	(48,731)
Net Changes	(19,110)
Balance at 6/30/18	$ 645,096

Changes of assumptions and other inputs reflect a change in the discount rate from 3.01 percent in 2016 to 3.56 percent in 2017.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following table presents the total OPEB liability of the College, as well as what the College's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.56 percent) or 1 percentage point higher (4.56 percent) than the current rate:

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB liability	$713,044	$645,096	$587,719

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following table presents the total OPEB liability of the College, as well as what the College's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	$560,847	$645,096	$752,845

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the College recognized OPEB expense of $61,824. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions or other inputs	$ -	$ 32,203
Transactions subsequent to the measurement date	50,872	-
Total	$ 50,872	$ 32,203

Of the total amount reported as deferred outflows of resources related to OPEB, $50,872 resulting from benefits paid subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ (3,701)
2020	(3,701)
2021	(3,701)
2022	(3,701)
2023	(3,701)
Thereafter	(13,698)
Total	$ (32,203)

Net Pension Liability. As a participating employer in the FRS, 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, 2018, the College's proportionate share of the net pension liabilities totaled $12,319,093. Note 11. includes a complete discussion of defined benefit pension plans.

11. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (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 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. Chapter 112, Florida Statutes, established the HIS Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance.

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

The College's FRS and HIS pension expense totaled $1,871,693 for the fiscal year ended June 30, 2018.

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 creditable 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.

The 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:

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

As provided in Section 121.101, Florida Statutes, if the member was initially enrolled in the Plan 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 2017-18 fiscal year were:

	Percent of Gross Salary	
Class	**Employee**	**Employer** (1)
FRS, Regular	3.00	7.92
FRS, Senior Management Service	3.00	22.71
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	13.26
FRS, Reemployed Retiree	(2)	(2)

(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 $842,550 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the College reported a liability of $8,265,408 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The College's proportionate share of the net pension liability was based on the College's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the College's proportionate share was 0.027943189 percent, which was an increase of 0.000658167 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the College recognized pension expense of $1,516,334. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 758,566	$ 45,786
Change of assumptions	2,777,761	-
Net difference between projected and actual earnings on FRS Plan investments	-	204,837
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	458,815	148,346
College FRS contributions subsequent to the measurement date	842,550	-
Total	$ 4,837,692	$ 398,969

The deferred outflows of resources totaling $842,550, 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ 568,545
2020	1,279,578
2021	833,902
2022	148,254
2023	553,244
Thereafter	212,650
Total	$ 3,596,173

Actuarial Assumptions. The total pension liability in the July 1, 2017, 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	7.10 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, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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

Asset Class	**Target Allocation** (1)	**Annual Arithmetic Return**	**Compound Annual (Geometric) Return**	**Standard Deviation**
Cash	1%	3.0%	3.0%	1.8%
Fixed Income	18%	4.5%	4.4%	4.2%
Global Equity	53%	7.8%	6.6%	17.0%
Real Estate (Property)	10%	6.6%	5.9%	12.8%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	9.7%
Total	100%			
Assumed inflation - Mean			2.6%	1.9%

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

Discount Rate. The discount rate used to measure the total pension liability was 7.10 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. The discount rate used in the 2017 valuation was updated from 7.60 percent to 7.10 percent.

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 7.10 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 (6.10 percent) or 1 percentage point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
College's proportionate share of the net pension liability	$14,959,889	$8,265,408	$2,707,455

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

HIS Pension Plan

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

Benefits Provided. For the fiscal year ended June 30, 2018, 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, 2018, 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 $228,340 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the College reported a net pension liability of $4,053,685 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within 1 year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, and update procedures were used to determine liabilities as of July 1, 2017. The College's proportionate share of the net pension liability was based on the College's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the College's proportionate share was 0.037911615 percent, which was a decrease of 0.001715949 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the College recognized pension expense of $355,359. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 8,440
Change of assumptions	569,809	350,526
Net difference between projected and actual earnings on HIS Plan investments	2,248	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	310,604	145,492
College contributions subsequent to the measurement date	228,340	-
Total	$ 1,111,001	$ 504,458

The deferred outflows of resources totaling $228,340, 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ 113,460
2020	113,034
2021	112,830
2022	79,636
2023	34,248
Thereafter	(75,005)
Total	$ 378,203

Actuarial Assumptions. The total pension liability at July 1, 2017, 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	3.58 percent

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

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

Discount Rate. The discount rate used to measure the total pension liability was 3.58 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 in the 2017 valuation was updated from 2.85 percent to 3.58 percent.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 3.58 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

	1% Decrease (2.58%)	**Current Discount Rate (3.58%)**	**1% Increase (4.58%)**
College's proportionate share of the net pension liability	$4,625,791	$4,053,685	$3,577,152

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.

12. 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's 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 2017-18 fiscal year were as follows:

Class	Percent of Gross Compensation
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, 2018, 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 roll over 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 $347,294 for the fiscal year ended June 30, 2018.

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, and 3.3 percent to cover the unfunded actuarial liability of the FRS pension plan for a total of 8.45 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 $77,599 and employee contributions totaled $45,463 for the 2017-18 fiscal year.

13. Operating Lease Commitments

The College leased 50 printers under operating leases, the majority of which expire in October 2018. These leased assets and the related commitments are not reported on the College's statement of net position. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for these noncancelable operating leases are as follows:

Fiscal Year Ending June 30	Amount
2019	$ 83,603
2020	8,917
2021	8,917
2022	8,917
2023	4,738
Total Minimum Payments Required	$ 115,092

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 to February 28, 2018, and up to $100 million from March 1, 2018, 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:

Functional Classification	Amount
Instruction	$ 8,607,114
Public Services	172,508
Academic Support	4,256,000
Student Services	3,419,869
Institutional Support	6,392,585
Operation and Maintenance of Plant	4,455,856
Scholarships and Waivers	4,977,742
Depreciation	2,701,871
Auxiliary Enterprises	75,735
Total Operating Expenses	$ 35,059,280

Schedule of Changes in the College's Total Other Postemployment Benefits Liability and Related Ratios

	2017
Total OPEB Liability	
Service Cost	$ 46,260
Interest	19,265
Changes of assumptions or other inputs	(35,904)
Benefit Payments	(48,731)
Net change in total OPEB liability	(19,110)
Total OPEB Liability - beginning, as Restated	664,206
Total OPEB Liability - ending	$ 645,096
Covered-Employee Payroll	$ 11,424,377
Total OPEB Liability as a percentage of covered-employee payroll	5.65%

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

	2017 (1)	**2016** (1)	**2015** (1)	**2014** (1)	**2013** (1)
College's proportion of the FRS net pension liability	0.027943189%	0.027285022%	0.028816871%	0.028388597%	0.0230143%
College's proportionate share of the FRS net pension liability	$ 8,265,408	$ 6,889,489	$ 3,722,085	$ 1,732,122	$ 3,961,785
College's covered payroll (2)	$ 13,683,155	$ 13,894,753	$ 12,865,517	$ 12,444,911	$ 11,664,616
College's proportionate share of the FRS net pension liability as a percentage of its covered payroll	60.41%	49.58%	28.93%	13.92%	33.96%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	83.89%	84.88%	92.00%	96.09%	88.54%

(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

	2018 (1)	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	$ 842,550	$ 875,574	$ 617,033	$ 702,580	$ 621,831
FRS contributions in relation to the contractually required contribution	(842,550)	$ (875,574)	(617,033)	(702,580)	(621,831)
FRS contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
College's covered payroll (2)	$ 13,769,760	$ 13,683,155	$ 13,894,753	$ 12,865,517	$ 12,444,911
FRS contributions as a percentage of covered payroll	6.12%	6.40%	4.44%	5.46%	5.00%

(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

	2017 (1)	2016 (1)	2015 (1)	2014 (1)	2013 (1)
College's proportion of the HIS net pension liability	0.037911615%	0.039627564%	0.036911297%	0.035779918%	0.034050966%
College's proportionate share of the HIS net pension liability	$ 4,053,685	$ 4,618,428	$ 3,764,372	$ 3,345,510	$ 2,964,584
College's covered payroll (2)	$ 12,157,788	$ 12,237,683	$ 11,215,377	$ 10,636,070	$ 9,892,723
College's proportionate share of the HIS net pension liability as a percentage of its covered payroll	33.34%	37.74%	33.56%	31.45%	29.97%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	1.64%	0.97%	0.50%	0.99%	1.78%

(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

	2018 (1)	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required HIS contribution	$ 228,340	$ 195,414	$ 193,414	$ 141,098	$ 122,570
HIS contributions in relation to the contractually required HIS contribution	(228,340)	(195,414)	(193,414)	(141,098)	(122,570)
HIS contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
College's covered payroll (2)	$ 12,354,694	$ 12,157,788	$ 12,237,683	$ 11,215,377	$ 10,636,070
HIS contributions as a percentage of covered payroll	1.85%	1.61%	1.58%	1.26%	1.15%

(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 Changes in the College's Total Other Postemployment Benefits Liability and Related Ratios

No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

Changes of Assumptions. There was a change in the total OPEB liability arising from the change in the Discount Rate from 3.01 percent at the prior Measurement Date to 3.56 percent at the current Measurement Date.

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 7.60 percent to 7.10 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 increased from 2.85 percent to 3.58 percent.

AUDITOR GENERAL

STATE OF FLORIDA

Sherrill F. Norman, CPA
Auditor General

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lake-Sumter State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 28, 2019, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying ***FINDING AND RECOMMENDATION*** section of this report as Financial Statement Finding No. 2018-001 that we consider to be a significant deficiency.

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*.

Management's Response to Finding

Management's response to the finding identified in our audit is included as Management's Response in Financial Statement Finding No. 2018-001. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 communication is not suitable for any other purpose.

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
March 28, 2019

FINDING AND RECOMMENDATION

SIGNIFICANT DEFICIENCY

BANK ACCOUNT RECONCILIATIONS AND FINANCIAL REPORTING

Finding Number	**2018-001**
Opinion Unit	Lake-Sumter State College
Financial Statements Account Titles	Accounts Receivable; Salary and Payroll Taxes Payable; and Cash and Cash Equivalents
Adjustment Amounts	Debits to: Accounts Receivable - $191,169 Salary and Payroll Taxes Payable - $399,450 Credit to Cash and Cash Equivalents - $590,619
Prior Year Finding	Not Applicable

Finding

College procedures did not effectively provide for:

- Timely and proper reconciliations of bank account cash balances to the general ledger and financial statement account balances with reconciling items promptly identified, thoroughly investigated, adequately documented, and resolved.
- Timely adjustments to the general ledger cash account balances as a result of the bank account reconciliations.
- Appropriate and timely supervisory review and approval of the bank account reconciliations and journal entries to ensure that the reconciliations were properly performed and the entries were accurately made.

Criteria

Effective internal controls require that reconciliations of bank account balances to general ledger control accounts be performed on a timely, routine basis by an employee independent of the journal entry responsibilities. Additionally, timely supervisory review and approval of the bank account reconciliations and related journal entries should be made to verify that reconciliations are properly performed and entries are accurately made.

Properly prepared and approved bank account reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, promptly detect and correct unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources.

Condition

College procedures did not provide for the timely preparation and appropriate supervisory review and approval of bank account reconciliations, and any related journal entries to ensure that cash balances were accurate.

During the 2017-18 fiscal year the College maintained six demand deposit cash bank accounts. At June 30, 2018, the College's general ledger cash in bank account balances totaled $7.5 million. Our examination of College records and discussions with College personnel disclosed that monthly bank account reconciliations for each of the six accounts were not prepared during the 2017-18 fiscal year. In August 2018, College personnel attempted to prepare a consolidated bank account reconciliation for all six accounts for each month of the 2017-18 fiscal year. Notwithstanding, unreconciled items for 10 attempted monthly consolidated reconciliations ranged from the general ledger cash account balance exceeding the bank account cash balance by $428,843 to the bank account cash balance exceeding general ledger cash account balance by $215,060.

College supervisory personnel in August 2018 approved the June 30, 2018, attempted bank account reconciliation; however, the reconciliation did not identify certain differences between the general ledger cash account and the bank account, resulting in the general ledger cash account exceeding the bank account cash balance by $533,948.

Our review of the attempted reconciliations and other College records also disclosed that:

- A journal entry created during the year-end closing process reduced accounts receivable and increased the general ledger cash account balance by $191,169 at June 30, 2018. College support for the entry noted that the journal entry was to be reversed on July 1, 2018, with the intent to analyze the item after year-end. However, although we requested, College records were not provided to identify the reason for the reconciling item.
- The June 30, 2018, attempted reconciliation contained a transposition error that incorrectly showed the bank account cash balance exceeding the general ledger cash account balance by $90,000.
- Subsequent to our inquiries, in February 2019 College personnel noted that a $399,450 payment for payroll taxes made in December 2017 had not been posted to the general ledger cash account.

After audit adjustments reducing the general ledger cash account by $590,619 ($191,169 and $399,450), and consideration of the $90,000 transposition error, the general ledger cash account balance exceeded the bank account cash balance by $33,329.

Subsequent to our inquiries, in January 2019 College supervisory personnel approved the other 11 monthly bank account reconciliations and were analyzing the remaining $33,329 unreconciled difference.

Cause

College personnel indicated that the prior Associate Vice President of Business Services made a change to the methodology used for posting cash receipts and disbursements that complicated the bank reconciliation process. The College is in the process of reverting back to the prior methodology and also indicated that the delay in performing bank reconciliations resulted from the Finance Department being short-staffed during the 2017-18 fiscal year.

Effect

Absent effective procedures for the timely preparation of bank account reconciliations, there is an increased risk that any cash transaction errors or fraud that may occur will not be timely detected. Additionally, without such procedures, the reliability of the general ledger financial information throughout the year and the Board's ability to effectively monitor the College's financial position is diminished.

We expanded our audit procedures to determine the adjustments necessary to ensure College financial statement amounts were properly reported, and College personnel accepted these adjustments. However, our audit procedures cannot substitute for management's responsibility for proper accountability over bank cash accounts and financial reporting.

Recommendation

The College should continue efforts to document explanations for the unreconciled differences between the College's June 30, 2018, bank account cash balances and the general ledger and financial statement cash account balances. The College should also enhance procedures to ensure that:

- Bank account cash balances are promptly and properly reconciled to the general ledger account balances with documentation that reconciling items were promptly identified, thoroughly investigated, explained, and resolved,

- Required adjustments to the general ledger cash account balances, as a result of the bank account reconciliations, are timely made, and
- Timely supervisory review and approval of the bank account cash reconciliations and any related journal entries is documented to ensure that the reconciliations are properly performed and the entries are accurately made.

Institution Response	The College acknowledges the untimely reconciliation of the bank statements and offers the following explanation and remedy. The Business Services department was going through significant staffing challenges in FY 17/18, with three members on long-term sick leave and one staff member that retired at the beginning of January of 2018, and two new employees that were hired as the Budget Manager and Bursar. Year-end review processes revealed errors in the bank statement reconciliation task and undue transactional complexities in the software system. Although the task was reassigned, it was not completed by the AFR deadline. Adjusting entries were made to match ERP G/L balances to the bank balance, which is a common year-end practice, with the expectation that the proper entries would be completed. The reconciliations were completed in FY19 and reconciling items properly identified. Transaction codes and protocols were also corrected in the software system to simplify the reconciliation process between the bank and merchant statements and post transactions directly to cash accounts instead of clearing accounts. An additional remedy, the "CFO Accountability Checklist", is being implemented to strengthen internal controls. The CFO Accountability Checklist includes all critical tasks that affect the financial statements, date performed and person responsible. Each staff member will be responsible for producing reports and reconciliation worksheets for key functions on a monthly basis for review by the Controller and VP of Business Affairs.
Estimated Corrective Action Date	March 1, 2019
Institution Contact and Telephone Number	Dr. Heather Bigard, Vice President of Administrative and Financial Services 352-365-2525