

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2018-107
February 2018

PENSACOLA STATE COLLEGE

For the Fiscal Year Ended
June 30, 2017



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2016-17 fiscal year, Dr. Charles E. Meadows served as President of Pensacola State College and the following individuals served as Members of the Board of Trustees:

	<u>County</u>
Marjorie T. Moore, Chair	Escambia
Patrick R. Dawson, Vice Chair from 1-24-17	Santa Rosa
Frank White, Vice Chair through 11-14-16 ^a	Escambia
Carol H. Carlan	Escambia
Monsignor Luke Hunt	Santa Rosa
Kevin Robert Lacz	Santa Rosa
Harold Edward Moore	Escambia
Chip W. Simmons	Escambia
Herbert Woll	Santa Rosa

^a Member resigned 11-14-16, Vice Chair position vacant through 1-23-17, and trustee position vacant through 6-30-17.

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 Joseph D. Dykes, CPA, and the audit was supervised by Kenneth C. Danley, CPA.

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

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PENSACOLA STATE COLLEGE

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

AUDIT OBJECTIVES AND SCOPE

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

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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2017. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

AUDIT METHODOLOGY

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



Sherrill F. Norman, CPA
Auditor General

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Pensacola State College, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Pensacola State College and of its aggregate discretely presented component units as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 30, 2018, on our consideration of the Pensacola State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts,

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
January 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2017, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2017, and June 30, 2016, and its component units, the Pensacola State College Foundation, Inc. for the fiscal years ended December 31, 2016, and December 31, 2015, and the WSRE-TV Foundation, Inc. for the fiscal years ended June 30, 2017, and June 30, 2016.

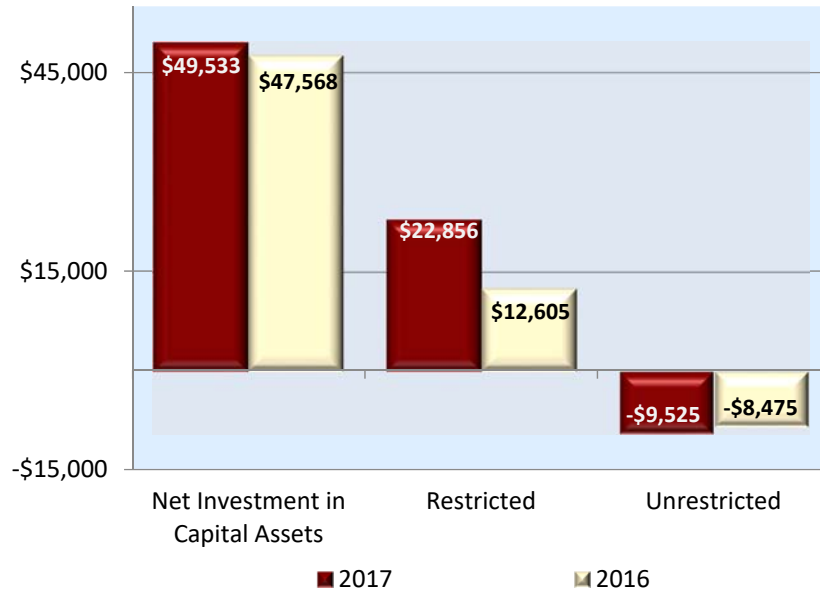
FINANCIAL HIGHLIGHTS

The College's assets and deferred outflows of resources totaled \$101 million at June 30, 2017. This balance reflects a \$16.6 million, or 19.6 percent, increase as compared to the 2015-16 fiscal year. Assets increased by \$11.2 million mainly due to an increase in the amount Due from Other Governmental Agencies, specifically from a Public Education Capital Outlay (PECO) allocation of \$8 million to replace the Baars Classroom Building. Deferred outflows increased by \$5.4 million due to 2016-17 fiscal year pension activity. Liabilities increased by \$6.4 million, or 22 percent, totaling \$35.6 million at June 30, 2017, compared to \$29.1 million at June 30, 2016, primarily from an addition to the pension liabilities. Deferred inflows of resources decreased by \$1 million, or 28.5 percent. As a result, the College's net position increased by \$11.2 million, resulting in a fiscal year-end balance of \$62.9 million.

The College's operating revenues totaled \$17.5 million for the 2016-17 fiscal year, representing a 1.8 percent decrease compared to the 2015-16 fiscal year. Operating expenses totaled \$75.5 million for the 2016-17 fiscal year, representing an increase of 0.8 percent.

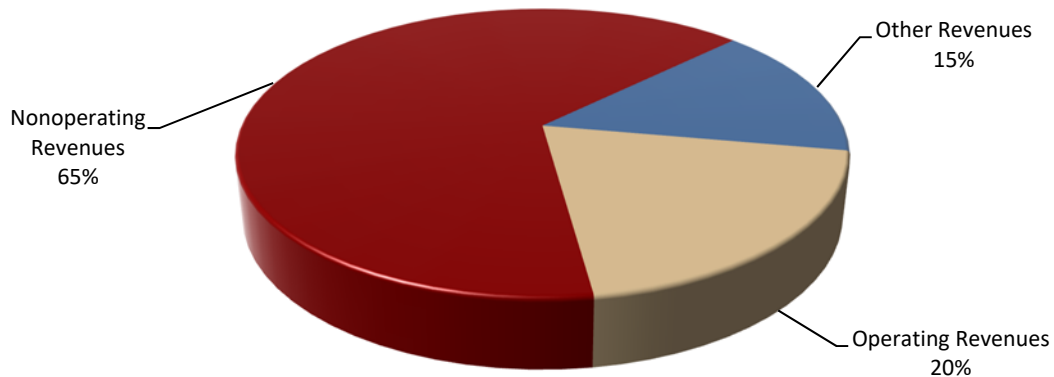
Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, is shown in the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

Net Position (In Thousands)



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

Total Revenues 2016-17 Fiscal Year



OVERVIEW OF FINANCIAL STATEMENTS

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

- Pensacola 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.
- Pensacola 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. This component unit provides funding and services to support and foster the pursuit of higher education at the College.
- WSRE-TV 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. This component unit provides funding and services to support and foster the activities, operations, and capital needs of WSRE-TV, a public telecommunications station owned and operated by the College.

Based on the application of the criteria for determining component units, the Pensacola State College Foundation, Inc. and the WSRE-TV Foundation, Inc. are included within the College's reporting entity as discretely presented component units.

Information regarding these component units, including summaries of the discretely presented component units' separately issued financial statements, is presented in the notes to financial statements.

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 and its component units, using the accrual basis of accounting, and presents the financial position of the College and its component units 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 and its component units' current financial condition. The changes in net position that occur over time indicate improvement or deterioration in financial condition.

The following summarizes the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the College and its component units for the respective fiscal years ended:

Condensed Statement of Net Position at

(In Thousands)

	College 6-30-17	6-30-16	Component Units (1) 2017	2016
Assets				
Current Assets	\$ 29,767	\$ 21,390	\$ 14,338	\$ 13,027
Capital Assets, Net	49,926	48,257	23	17
Other Noncurrent Assets	11,223	10,116	12,457	11,929
Total Assets	<u>90,916</u>	<u>79,763</u>	<u>26,818</u>	<u>24,973</u>
Deferred Outflows of Resources	<u>10,098</u>	<u>4,697</u>	<u>-</u>	<u>-</u>
Liabilities				
Current Liabilities	5,880	6,332	372	202
Noncurrent Liabilities	29,675	22,802	182	173
Total Liabilities	<u>35,555</u>	<u>29,134</u>	<u>554</u>	<u>375</u>
Deferred Inflows of Resources	<u>2,595</u>	<u>3,628</u>	<u>-</u>	<u>-</u>
Net Position				
Net Investment in Capital Assets	49,533	47,568	23	17
Restricted	22,856	12,605	23,557	22,302
Unrestricted	(9,525)	(8,475)	2,684	2,279
Total Net Position	<u>\$ 62,864</u>	<u>\$ 51,698</u>	<u>\$ 26,264</u>	<u>\$ 24,598</u>

Note: (1) For the 2017 year, the amounts reported are for the WSRE-TV Foundation, Inc. fiscal year ended June 30, 2017, and for the Pensacola State College Foundation, Inc. fiscal year ended December 31, 2016. For the 2016 year, the amounts reported are for the WSRE-TV Foundation, Inc. fiscal year ended June 30, 2016, and for the Pensacola State College Foundation, Inc. fiscal year ended December 31, 2015.

The College's current assets increased \$8.4 million, or 39.2 percent, due to an \$8 million increase in PECO receivable for replacement of the Baars Classroom Building. Deferred outflows of resources increased \$5.4 million, or 115 percent, due mainly to pension activity during the 2016-17 fiscal year. The College's noncurrent liabilities increased \$6.9 million, or 30.1 percent, and deferred inflows of resources decreased \$1 million, or 28.5 percent, due mainly to pension activity during the 2016-17 fiscal year.

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

The statement of revenues, expenses, and changes in net position presents the College's and its component units' 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 activity of the College and its component units for the respective fiscal years ended:

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

(In Thousands)

	College		Component Units (1)	
	6-30-17	6-30-16	2017	2016
Operating Revenues	\$ 17,459	\$ 17,782	\$ 2,762	\$ 2,437
Less, Operating Expenses	75,469	74,905	3,237	2,863
Operating Loss	(58,010)	(57,123)	(475)	(426)
Net Nonoperating Revenues (Expenses)	56,518	54,689	1,719	(49)
Income (Loss) Before Other Revenues	(1,492)	(2,434)	1,244	(475)
Other Revenues	12,658	3,939	422	539
Net Increase In Net Position	11,166	1,505	1,666	64
Net Position, Beginning of Year	51,698	50,193	24,598	24,534
Net Position, End of Year	<u>\$ 62,864</u>	<u>\$ 51,698</u>	<u>\$ 26,264</u>	<u>\$ 24,598</u>

Note: (1) For the 2017 year, the amounts reported are for the WSRE-TV Foundation, Inc. fiscal year ended June 30, 2017, and for the Pensacola State College Foundation, Inc. fiscal year ended December 31, 2016. For the 2016 year, the amounts reported are for the WSRE-TV Foundation, Inc. fiscal year ended June 30, 2016, and for the Pensacola State College Foundation, Inc. fiscal year ended December 31, 2015.

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 for the College and its component units that were used to fund operating activities for the respective fiscal years ended:

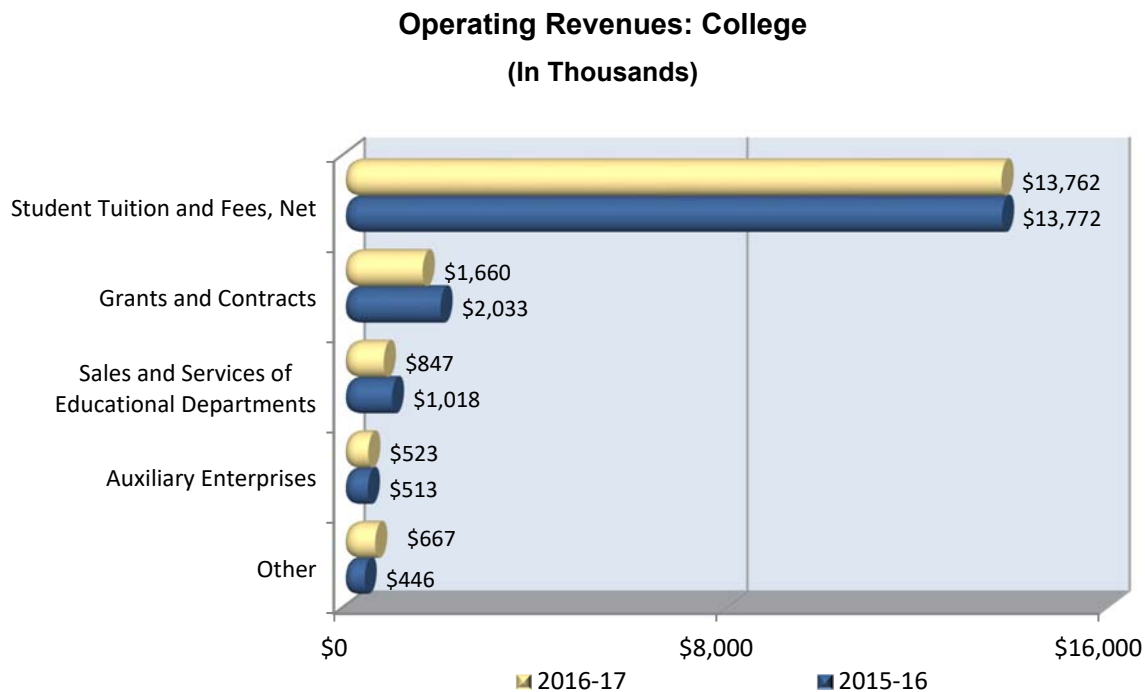
**Operating Revenues
For the Fiscal Years Ended**

(In Thousands)

	College		Component Units (1)	
	6-30-17	6-30-16	2017	2016
Student Tuition and Fees, Net	\$ 13,762	\$ 13,772	\$ -	\$ -
Grants and Contracts	1,660	2,033	-	-
Sales and Services of Educational Departments	847	1,018	-	-
Auxiliary Enterprises	523	513	-	-
Other	667	446	2,762	2,437
Total Operating Revenues	<u>\$ 17,459</u>	<u>\$ 17,782</u>	<u>\$ 2,762</u>	<u>\$ 2,437</u>

Note: (1) For the 2017 year, the amounts reported are for the WSRE-TV Foundation, Inc. fiscal year ended June 30, 2017, and for the Pensacola State College Foundation, Inc. fiscal year ended December 31, 2016. For the 2016 year, the amounts reported are for the WSRE-TV Foundation, Inc. fiscal year ended June 30, 2016, and for the Pensacola State College Foundation, Inc. fiscal year ended December 31, 2015.

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



Operating Expenses

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

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

Operating Expenses For the Fiscal Years Ended

(In Thousands)

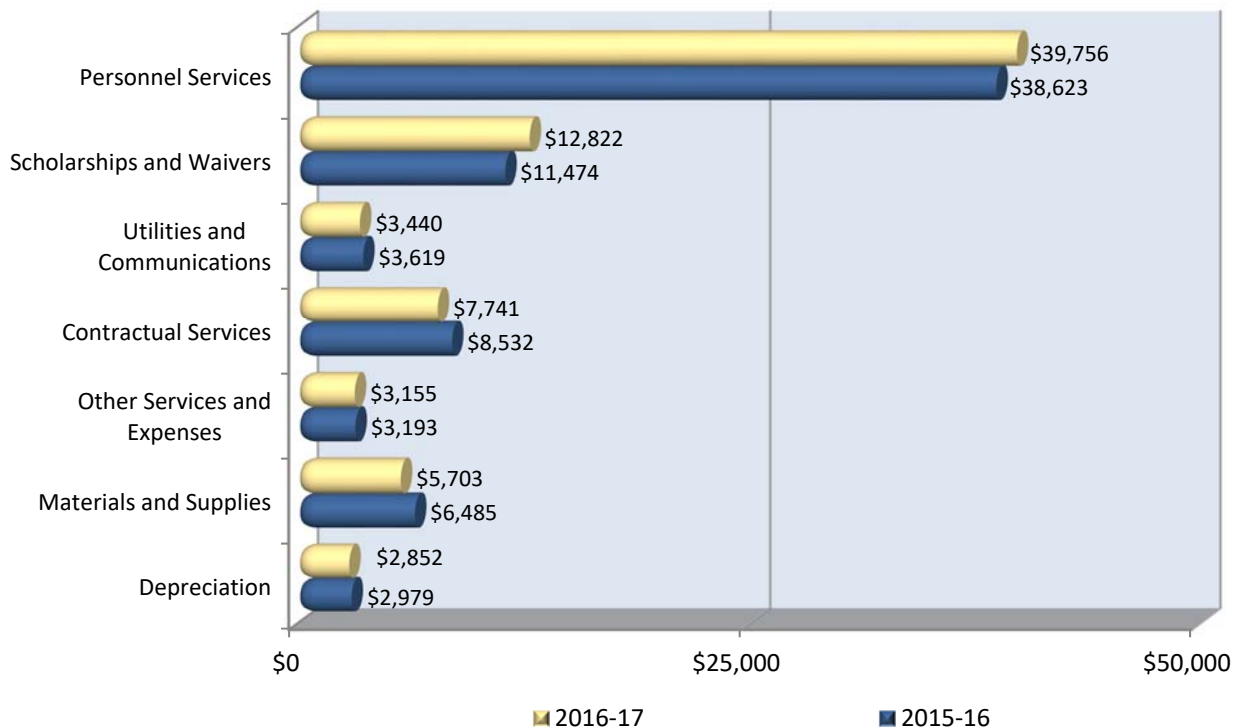
	College		Component Units (1)	
	6-30-17	6-30-16	2017	2016
Personnel Services	\$ 39,756	\$ 38,623	\$ -	\$ -
Scholarships and Waivers	12,822	11,474	587	519
Utilities and Communications	3,440	3,619	16	18
Contractual Services	7,741	8,532	671	232
Other Services and Expenses	3,155	3,193	1,229	1,880
Materials and Supplies	5,703	6,485	728	211
Depreciation	2,852	2,979	6	3
Total Operating Expenses	\$ 75,469	\$ 74,905	\$ 3,237	\$ 2,863

Note: (1) For the 2017 year, the amounts reported are for the WSRE-TV Foundation, Inc. fiscal year ended June 30, 2017, and for the Pensacola State College Foundation, Inc. fiscal year ended December 31, 2016. For the 2016 year, the amounts reported are for the WSRE-TV Foundation, Inc. fiscal year ended June 30, 2016, and for the Pensacola State College Foundation, Inc. fiscal year ended December 31, 2015.

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

Operating Expenses: College

(In Thousands)



College operating expenses changed slightly within categories, but overall expenses remain \$75 million for both fiscal years.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2016-17 and 2015-16 fiscal years:

Nonoperating Revenues (Expenses): College For the Fiscal Years

(In Thousands)

	2016-17	2015-16
State Noncapital Appropriations	\$ 35,389	\$ 34,883
Federal and State Student Financial Aid	17,155	15,246
Gifts and Grants	3,922	4,446
Investment Income	65	77
Other Nonoperating Revenues	24	81
Interest on Capital Asset-Related Debt	(34)	(50)
Gain (Loss) on Disposal of Assets	(3)	6
Net Nonoperating Revenues	\$ 56,518	\$ 54,689

Net nonoperating revenues increased primarily due to a \$1.9 million increase in Federal and State student financial aid for Pell Grant awards in the 2016-17 fiscal year.

Other Revenues

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues for the 2016-17 and 2015-16 fiscal years:

Other Revenues: College For the Fiscal Years

(In Thousands)

	2016-17	2015-16
State Capital Appropriations	\$ 9,817	\$ 1,247
Capital Grants, Contracts, Gifts, and Fees	2,841	2,692
Total	\$ 12,658	\$ 3,939

Other revenues have increased mainly due to a PECO allocation for replacing the Baars Classroom Building in the amount of \$8 million.

The Statement of Cash Flows

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

plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

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

Condensed Statement of Cash Flows: College For the Fiscal Years (In Thousands)		
	2016-17	2015-16
Cash Provided (Used) by:		
Operating Activities	\$ (54,257)	\$ (54,823)
Noncapital Financing Activities	56,466	54,953
Capital and Related Financing Activities	(14)	1,751
Investing Activities	72	80
Net Increase in Cash and Cash Equivalents	2,267	1,961
Cash and Cash Equivalents, Beginning of Year	25,888	23,927
Cash and Cash Equivalents, End of Year	\$ 28,155	\$ 25,888

Major sources of funds came from State noncapital appropriations (\$35.4 million), Federal and State student financial aid (\$17.2 million), and net student tuition and fees (\$14.1 million). Major uses of funds were for payments to employees and for employee benefits (\$38.9 million), payment to suppliers (\$16.5 million), and payment for scholarships (\$12.8 million).

Cash and cash equivalents did not change significantly from the prior fiscal year.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION
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Capital Assets

At June 30, 2017, the College had \$120.2 million in capital assets, less accumulated depreciation of \$70.3 million, for net capital assets of \$49.9 million. Depreciation charges for the current fiscal year totaled \$2.9 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30: College (In Thousands)		
	2017	2016
Land	\$ 12,795	\$ 12,795
Artwork/Artifacts	119	117
Construction in Progress	310	508
Buildings	33,773	31,545
Other Structures and Improvements	863	1,039
Furniture, Machinery, and Equipment	2,066	2,253
Capital Assets, Net	\$ 49,926	\$ 48,257

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

Capital Expenses and Commitments

Major capital expenses through June 30, 2017, were incurred for completion of the Lamar Studio addition. The College's construction commitments at June 30, 2017, are as follows:

	Amount (In Thousands)
Total Committed	\$ 1,820
Completed to Date	310
Balance Committed	\$ 1,510

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

Debt Administration

As of June 30, 2017, the College had \$393,000 in long-term debt outstanding as compared to \$689,000 at the end of the prior fiscal year, representing a decrease of \$296,000, or 43 percent, from the prior fiscal year.

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2016-17 fiscal year, there were no bond sales, and debt repayments totaled \$296,000. 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, the College will receive only a modest increase in State funding in the 2017-18 fiscal year. The tuition rates for the 2017-18 fiscal year remained the same as the 2016-17 fiscal year. The fundable enrollment at the College is trending upward which should generate additional tuition, despite the freeze in tuition rates. The College is a bronze school in regards to Performance Funding. Unlike the past 2 years, the College will receive its at-risk State funds without having to do performance reports to the SBE to earn back the funding. This will enable the College to utilize these funds during the 2017-18 fiscal year.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President for Business Affairs, Pensacola State College, 1000 College Boulevard, Pensacola, Florida 32504.

BASIC FINANCIAL STATEMENTS

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

June 30, 2017

	College	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 13,704,904	\$ 3,468,236
Restricted Cash and Cash Equivalents	3,797,399	-
Investments	-	10,632,015
Accounts Receivable, Net	486,306	126,788
Notes Receivable, Net	125,221	-
Due from Other Governmental Agencies	10,926,466	-
Due from Component Unit	322,430	-
Prepaid Expenses	403,685	85,078
Deposits	400	-
Other Current Assets	-	25,900
Total Current Assets	29,766,811	14,338,017
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	10,652,672	-
Investments	-	11,975,742
Restricted Investments	9,417	-
Prepaid Expenses	487,881	-
Other Noncurrent Assets	73,482	481,457
Depreciable Capital Assets, Net	36,702,363	23,231
Nondepreciable Capital Assets	13,223,489	-
Total Noncurrent Assets	61,149,304	12,480,430
TOTAL ASSETS	90,916,115	26,818,447
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	10,098,357	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,123,638	225,275
Salary and Payroll Taxes Payable	1,894,762	-
Unearned Revenue	1,582,493	146,940
Deposits Held for Others	274,228	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	307,000	-
Compensated Absences Payable	416,088	-
Net Pension Liability	281,789	-
Total Current Liabilities	5,879,998	372,215

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

June 30, 2017

	<u>College</u>	<u>Component Units</u>
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	86,000	-
Note Payable	-	56,862
Compensated Absences Payable	4,788,364	-
Net Pension Liability	24,800,884	-
Other Long-Term Liabilities	-	124,938
Total Noncurrent Liabilities	<u>29,675,248</u>	<u>181,800</u>
TOTAL LIABILITIES	<u>35,555,246</u>	<u>554,015</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	<u>2,595,244</u>	<u>-</u>
NET POSITION		
Net Investment in Capital Assets	49,532,852	23,231
Restricted:		
Nonexpendable:		
Endowment	-	10,158,395
Expendable:		
Endowment	-	1,137,973
Grants and Loans	1,462,667	-
Scholarships	359,817	-
Capital Projects	21,024,068	-
Debt Service	9,417	-
Other	-	12,260,722
Unrestricted	<u>(9,524,839)</u>	<u>2,684,111</u>
TOTAL NET POSITION	<u><u>\$ 62,863,982</u></u>	<u><u>\$ 26,264,432</u></u>

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

PENSACOLA STATE COLLEGE
A Component Unit of the State of Florida
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

	<u>College</u>	<u>Component Units</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$7,541,747	\$ 13,762,514	\$ -
Federal Grants and Contracts	882,066	-
State and Local Grants and Contracts	753,127	-
Nongovernmental Grants and Contracts	24,422	-
Sales and Services of Educational Departments	846,867	-
Auxiliary Enterprises	523,184	-
Other Operating Revenues	666,502	2,762,350
Total Operating Revenues	<u>17,458,682</u>	<u>2,762,350</u>
EXPENSES		
Operating Expenses:		
Personnel Services	39,756,247	-
Scholarships and Waivers	12,821,507	587,125
Utilities and Communications	3,440,222	15,795
Contractual Services	7,740,619	670,427
Other Services and Expenses	3,154,896	1,229,201
Materials and Supplies	5,703,394	728,286
Depreciation	2,852,095	6,014
Total Operating Expenses	<u>75,468,980</u>	<u>3,236,848</u>
Operating Loss	<u>(58,010,298)</u>	<u>(474,498)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	35,389,199	-
Federal and State Student Financial Aid	17,154,934	-
Gifts and Grants	3,921,907	-
Investment Income	64,974	1,718,989
Other Nonoperating Revenues	23,923	-
Interest on Capital Asset-Related Debt	(33,370)	-
Loss on Disposal of Capital Assets	(2,927)	-
Net Nonoperating Revenues	<u>56,518,640</u>	<u>1,718,989</u>
Income (Loss) Before Other Revenues	<u>(1,491,658)</u>	<u>1,244,491</u>
State Capital Appropriations	9,816,412	-
Capital Grants, Contracts, Gifts, and Fees	2,841,129	-
Additions to Endowments	-	421,728
Total Other Revenues	<u>12,657,541</u>	<u>421,728</u>
Increase in Net Position	<u>11,165,883</u>	<u>1,666,219</u>
Net Position, Beginning of Year	51,698,099	24,598,213
Net Position, End of Year	<u>\$ 62,863,982</u>	<u>\$ 26,264,432</u>

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

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

For the Fiscal Year Ended June 30, 2017

	<u>College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 14,089,033
Grants and Contracts	1,316,523
Payments to Suppliers	(16,491,569)
Payments for Utilities and Communications	(3,440,222)
Payments to Employees	(30,408,457)
Payments for Employee Benefits	(8,533,535)
Payments for Scholarships	(12,821,507)
Loans Issued to Students	(1,581,132)
Collection on Loans to Students	1,589,119
Auxiliary Enterprises	525,112
Sales and Services of Educational Departments	846,867
Other Receipts	652,524
Net Cash Used by Operating Activities	<u>(54,257,244)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	35,389,199
Federal and State Student Financial Aid	17,154,934
Federal Direct Loan Program Receipts	2,941,871
Federal Direct Loan Program Disbursements	(2,941,871)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	3,921,907
Net Cash Provided by Noncapital Financing Activities	<u>56,466,040</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	1,809,014
Capital Grants and Gifts	3,013,214
Proceeds from Sale of Capital Assets	23,923
Purchases of Capital Assets	(4,531,086)
Principal Paid on Capital Debt	(296,000)
Interest Paid on Capital Debt	(33,370)
Net Cash Used by Capital and Related Financing Activities	<u>(14,305)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	7,401
Investment Income	64,974
Net Cash Provided by Investing Activities	<u>72,375</u>
Net Increase in Cash and Cash Equivalents	2,266,866
Cash and Cash Equivalents, Beginning of Year	<u>25,888,109</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 28,154,975</u></u>

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

	<u>College</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (58,010,298)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	2,852,095
Changes in Assets, Liabilities, Deferred Outflows of Resources,	
and Deferred Inflows of Resources:	
Receivables, Net	384,713
Prepaid Expenses	390,305
Other Assets	8,478
Accounts Payable	(393,079)
Salaries and Payroll Taxes Payable	89,329
Unearned Revenue	(280,952)
Deposits Held for Others	(13,978)
Compensated Absences Payable	(137,015)
Net Pension Liability	7,287,053
Deferred Outflows of Resources Related to Pensions	(5,401,002)
Deferred Inflows of Resources Related to Pensions	(1,032,893)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (54,257,244)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING	
ACTIVITIES	
Losses from the disposal of capital assets were recognized on the statement of	
revenues, expenses, and changes in net position, but are not cash transactions	
for the statement of cash flows.	\$ (2,927)

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 Pensacola 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 Escambia and Santa Rosa 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 Units. Based on the application of the criteria for determining component units, the following component units are included within the College's reporting entity:

- Pensacola State College Foundation, Inc.: This legally separate organization provides funding and services to support and foster the pursuit of higher education at the College and is governed by a separate board.
- WSRE-TV Foundation, Inc.: This legally separate organization provides funding and services to support and foster the activities, operations, and capital needs of WSRE-TV, a public telecommunications station operated by the College, and is governed by a separate board.

The College's component units, as described above, are also direct-support organizations, as defined in Section 1004.70, Florida Statutes, and although legally separate from the College, are financially accountable to the College. The component units are managed independently, outside the College's budgeting process, and their powers generally are vested in a governing board pursuant to various State statutes. The component units receive, hold, invest, and administer property, and make expenditures to or for the benefit of the College.

The College's component units are audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The audited financial statements of each component unit are available to the public and can be obtained from the Vice President for Business Affairs, Pensacola State College, 1000 College Boulevard, Pensacola, Florida 32504. The financial data reported on the accompanying financial statements for the Pensacola State College Foundation, Inc. was derived from audited financial statements for the fiscal year ended December 31, 2016. The financial data reported on the accompanying financial statements for the WSRE-TV Foundation, Inc. was derived from audited financial

statements for the fiscal year ended June 30, 2017. Additional condensed financial statements for the College's component units are included in a subsequent note.

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

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

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

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

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

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

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. To the extent that these resources are used to pay student charges, the College records a scholarship allowance against 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 invested with the State Board of Administration (SBA) Florida PRIME investment pool. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less that are not held solely for income or profit to be cash equivalents. Under this definition, the College considers amounts invested in the Florida PRIME investment pool to be cash equivalents.

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

At June 30, 2017, the College reported as cash equivalents \$3,227,214 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 39 days as of June 30, 2017. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at amortized cost. Chapter 218.409(8)(a), Florida Statutes, states that "the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment

Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days.” As of June 30, 2017, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant’s daily access to 100 percent of their account value.

Capital Assets. College capital assets consist of land; artwork/artifacts; 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 to 25 years
- Furniture, Machinery, and Equipment:
 - o Computer Equipment – 3 years
 - o Vehicles, Office Machines, and Educational Equipment – 5 years
 - o Furniture, Mainframe Computer Equipment, and Television Equipment – 7 years

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

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net 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 HISs fiduciary net positions have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

2. Deficit Net Position in Individual Funds

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

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (9,878,206)
Auxiliary Funds	353,367
Total	\$ (9,524,839)

3. Investments

College Investments

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

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

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

The College reported investments totaling \$9,417 at June 30, 2017, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value (Level 1 inputs). The College relies on policies developed by the SBA for managing interest rate risk and credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Units' Investments

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

Investments held by the College's component units are reported at fair value as follows:

Investment Type	Average Maturity	Credit Quality	Pensacola State College Foundation, Inc. 12-31-16	WSRE-TV Foundation, Inc. 6-30-17	Total (1)
Federal Agency Obligations					
Government National Mortgage Association II Modified Pass Through Pool	(2)	(2)	\$ 464	\$ -	\$ 464
Fixed Income					
Vanguard Short-Term Investment-Grade Fund	3.1 Years	(3)	843,150	-	843,150
Vanguard Inflation-Protected Securities Fund	8.5 Years	(3)	1,798,331	-	1,798,331
Vanguard Intermediate-Term Bond Index Fund	7.2 Years	(3)	2,886,594	-	2,886,594
Federated Total Return Bond Fund	7 Years	(3)	-	311,179	311,179
PIMCO Low Duration Fund	2 Years	(3)	-	148,785	148,785
Dodge & Cox Income Fund	8.1 Years	(3)	2,064,981	-	2,064,981
Dodge & Cox Income Fund	8 Years	(3)	-	262,225	262,225
Equities					
Vanguard 500 Index Fund	(2)	(2)	5,941,633	566,245	6,507,878
Vanguard Dividend Growth Fund	(2)	(2)	1,049,978	-	1,049,978
Vanguard Small Cap Index Fund	(2)	(2)	2,194,649	-	2,194,649
Vanguard Developed Market Index Fund	(2)	(2)	1,375,176	84,640	1,459,816
Vanguard Mid Cap Index Fund	(2)	(2)	2,253,813	-	2,253,813
Alliance Bernstein Small Cap Growth	(2)	(2)	-	55,670	55,670
American EuroPacific Growth Fund	(2)	(2)	-	87,915	87,915
Fidelity Small Cap Value Fund	(2)	(2)	-	51,223	51,223
Massmutual Select Mid Cap Growth	(2)	(2)	-	55,555	55,555
Oppenheimer Developing Markets Fund	(2)	(2)	284,234	40,556	324,790
Sentinel Common Stock Fund Class	(2)	(2)	-	109,572	109,572
JP Morgan Mid Cap Value Fund	(2)	(2)	-	52,462	52,462
Other					
Federated Government Obligations Fund	34 Days WAM	AAAm	-	88,727	88,727
Total Component Units' Investments			<u>\$ 20,693,003</u>	<u>\$ 1,914,754</u>	<u>\$ 22,607,757</u>

Notes: (1) Federal Agency Obligations are reported at fair value using significant other observable inputs (Level 2 inputs). All other investments are reported at fair value using quoted market prices (Level 1 inputs).

(2) Investment risk disclosures are not required for these investments.

(3) These funds are not rated by a nationally recognized statistical rating organization.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Pensacola State College Foundation, Inc. investment in the Vanguard Short-Term Investment-Grade Fund had an average effective duration of 2.55 years. The Vanguard Inflation-Protected Securities Fund had an average effective duration of 7.88 years. The Vanguard Intermediate-Term Bond Index Fund had an average effective duration of 6.5 years. The Dodge & Cox Income Fund had an average effective duration of 4.2 years.

The WSRE-TV Foundation, Inc. investment in the Federated Total Return Bond Fund had an average effective duration of 4.9 years. The PIMCO Low Duration Fund had an average effective duration of 1.8 years. The Dodge & Cox Income Fund had an average effective duration of 4.2 years.

Credit Risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing an investor to experience a loss of principal.

The Pensacola State College Foundation, Inc. investment policy permits investments in equities listed on a national exchange and bonds issued in United States (U.S.) dollars. Uses of leverage in an account (margin or derivatives securities that increase risk) are prohibited as an investment. Cash should be transitional or held for the purpose of providing liquidity to meet the Foundation's cash flow requirements. This includes commercial paper with an A-1 or P-1 rating at the time of the initial investment and money market funds.

WSRE-TV Foundation, Inc. has two separate investment portfolios separated between endowment funds and operating funds. The Foundation's investment policy provides that endowment portfolio equity investments will not exceed 65 percent of the asset allocation and operating portfolio equity investments will not exceed 20 percent of the asset allocation. The investment portfolios at June 30, 2017, meet the policy guidelines, with equity investments representing 65 percent, fixed income investments representing 30 percent, and cash representing 5 percent of the endowment portfolio, and equity investments representing 20 percent, fixed income investments representing 74 percent, and cash representing 6 percent of the operating portfolio.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the investor will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

At December 31, 2016, Pensacola State College Foundation, Inc. cash equivalents consisted of \$266,083 held in the Federated Government Obligations money market mutual fund. The fund seeks to preserve the value of the investments at \$1 per share; however, it is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

The WSRE-TV Foundation, Inc. investment policy does not address custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investor's investment in a single issuer.

Pensacola State College Foundation, Inc. funds are invested to produce maximum total return consistent with prudent risk limits. The allocation of the portfolio over the various asset classes is the single most important determinant of investment risk and return. The Foundation's investment policy uses target ranges of 45 to 75 percent in equity securities and 25 to 55 percent in fixed income securities. Ranges within equity securities are as follows: 20 percent or less in international and emerging market equities and 5 to 25 percent in small capitalization equities. Ranges within fixed income securities are 5 percent or less in diversified portfolio of noninvestment grade bonds. No more than 5 percent of Foundation assets may be invested in any one issuer, except the U.S. Government. The investments at December 31, 2016, meet the investment policy guidelines with equity securities representing 63 percent, and fixed income securities representing 37 percent, of the asset allocation.

WSRE-TV Foundation, Inc. did not have any investments at June 30, 2017, in which over 5 percent of the total investment portfolio was derived from one issuer, excluding U.S. Government and U.S. Government agency-backed securities, investments in mutual funds, and other pooled investment funds.

4. Accounts Receivable

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, unused credit memos, and contract and grant reimbursements due from third parties. The accounts receivable are reported net of a \$349,925 allowance for doubtful accounts.

5. Notes Receivable

Notes receivable represent student loans made under the College's short-term loan program and are reported net of a \$105,862 allowance for doubtful notes.

6. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of \$9,734,894 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

7. Due From Component Unit

The \$322,430 reported as due from component unit consists of amounts owed to the College by the Pensacola State College Foundation, Inc. (Foundation) for scholarships, student aid, and a portion of the Lamar Studio building addition. The College's financial statements are reported for the fiscal year ended June 30, 2017. The Foundation's financial statements are reported for the fiscal year ended December 31, 2016. Accordingly, amounts reported by the College as due from component unit on the statement of net position do not agree with amounts reported by the component unit as due to the College.

8. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2017, is shown in the following table:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 12,794,717	\$ -	\$ -	\$ -	\$ 12,794,717
Artwork/Artifacts	116,700	-	2,000	-	118,700
Construction in Progress	507,964	-	3,418,184	3,616,076	310,072
Total Nondepreciable Capital Assets	\$ 13,419,381	\$ -	\$ 3,420,184	\$ 3,616,076	\$ 13,223,489
Depreciable Capital Assets:					
Buildings	\$ 73,890,258	\$ 1	\$ 3,612,476	\$ -	\$ 77,502,735
Other Structures and Improvements	11,286,587	(9,093)	124,665	-	11,402,159
Furniture, Machinery, and Equipment	17,268,713	535,172	456,830	179,145	18,081,570
Total Depreciable Capital Assets	102,445,558	526,080	4,193,971	179,145	106,986,464
Less, Accumulated Depreciation:					
Buildings	42,345,631	(2,250)	1,386,803	-	43,730,184
Other Structures and Improvements	10,247,283	(1)	291,609	-	10,538,891
Furniture, Machinery, and Equipment	15,015,310	47,505	1,128,429	176,218	16,015,026
Total Accumulated Depreciation	67,608,224	45,254	2,806,841	176,218	70,284,101
Total Depreciable Capital Assets, Net	\$ 34,837,334	\$ 480,826	\$ 1,387,130	\$ 2,927	\$ 36,702,363

Note: (1) Capital assets and accumulated depreciation include adjustments of \$526,080 and \$45,254, respectively, to correct errors in the accounting records.

9. Unearned Revenue

Unearned revenue includes restricted grants and contracts. As of June 30, 2017, the College reported the following amounts as unearned revenue:

Description	Amount
Restricted Grants and Contracts	\$ 1,581,909
Other Unearned Revenue	584
Total Unearned Revenue	\$ 1,582,493

10. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2017, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 689,000	\$ -	\$ 296,000	\$ 393,000	\$ 307,000
Compensated Absences Payable	5,341,467	465,877	602,892	5,204,452	416,088
Net Pension Liability	17,795,620	13,369,549	6,082,496	25,082,673	281,789
Total Long-Term Liabilities	\$ 23,826,087	\$ 13,835,426	\$ 6,981,388	\$ 30,680,125	\$ 1,004,877

Bonds Payable. The SBE issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the SBA administer the principal and interest

payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2017:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds:			
Series 2014B	\$ 368,000	2 - 5	2020
Series 2009A	25,000	5	2019
Total	<u>\$ 393,000</u>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>SBE Capital Outlay Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 307,000	\$ 18,570	\$ 325,570
2019	50,000	3,220	53,220
2020	36,000	720	36,720
Total	<u>\$ 393,000</u>	<u>\$ 22,510</u>	<u>\$ 415,510</u>

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2017, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$5,204,452. The current portion of the compensated absences liability, \$416,088, 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. The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for other postemployment benefits administered by the Florida College System Risk Management Consortium (Consortium).

Plan Description. The College contributes to an agent multiple-employer defined benefit plan administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Other Postemployment Benefits Plan (OPEB Plan) at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal

Medicare (Medicare) program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the OPEB Plan, and the OPEB Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend OPEB Plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2016-17 fiscal year, 65 retirees received OPEB benefits. The College provided required contributions of \$56,016 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$407,184, which represents 1.6 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 30,432
Amortization of Unfunded Actuarial Accrued Liability	34,312
Annual Required Contribution	64,744
Interest on Net OPEB Obligation	(3,278)
Adjustment to Annual Required Contribution	3,028
Annual OPEB Cost (Expense)	64,494
Contribution Toward the OPEB Cost	(56,016)
Increase in Net OPEB Obligation	8,478
Net OPEB Obligation (Asset), Beginning of Year	(81,960)
Net OPEB Obligation (Asset), End of Year	<u>\$ (73,482)</u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB asset as of June 30, 2017, and for the 2 preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
2014-15	\$ 72,521	108.7%	\$ (76,256)
2015-16	64,512	108.8%	(81,960)
2016-17	64,494	86.9%	(73,482)

Funded Status and Funding Progress. As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$928,615 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$928,615 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$24,813,970 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3.7 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial valuations used actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The College's OPEB actuarial valuation as of July 1, 2015, used the entry age normal actuarial method to estimate the actuarial accrued liability as of June 30, 2017, and the College's 2016-17 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year, an inflation rate of 2.6 percent per year, and an annual healthcare cost trend rate of 6.75 percent pre-Medicare and 5.25 percent Medicare for the 2016-17 fiscal year, reduced by decrements to an ultimate rate of 5 percent in 2020 for pre-Medicare and 5 percent in 2017 for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2017, was 20 years.

Net Pension Liability. As a participating employer in the Florida Retirement System, the College recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2017, the College's proportionate share of the net pension liabilities totaled \$25,082,673. 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 112, Florida Statutes, established the HIS Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class employed by the State and faculty and specified employees of State colleges.

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

The College's FRS and HIS pension expense totaled \$2,829,455 for the fiscal year ended June 30, 2017.

FRS Pension Plan

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

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions.
- *Special Risk Class* – Members who are employed as law enforcement officers and meet the criteria to qualify for this class.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS-participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following table shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
<u>Regular Class members initially enrolled before July 1, 2011</u>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<u>Regular Class members initially enrolled on or after July 1, 2011</u>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<u>Senior Management Service Class</u>	2.00
<u>Special Risk Class</u>	
Service on and after October 1, 1974	3.00

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

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2016-17 fiscal year were:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.52
FRS, Senior Management Service	3.00	21.77
FRS, Special Risk	3.00	22.57
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	12.99
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.

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

The College's contributions to the Plan totaled \$1,585,019 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a liability of \$15,942,071 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.063136719 percent, which was a decrease of 0.008420324 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$2,242,876. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,220,648	\$ 148,431
Change of assumptions	964,448	-
Net difference between projected and actual earnings on FRS Plan investments	4,120,832	-
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	368,981	1,492,852
College FRS contributions subsequent to the measurement date	1,585,019	-
Total	\$ 8,259,928	\$ 1,641,283

The deferred outflows of resources totaling \$1,585,019, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 660,212
2019	660,212
2020	2,266,767
2021	1,413,769
2022	27,447
Thereafter	5,219
Total	\$ 5,033,626

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

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.60 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	100%			
Assumed inflation - Mean			2.6%	1.9%

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

Discount Rate. The discount rate used to measure the total pension liability was 7.60 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60 percent) or 1 percentage point higher (8.60 percent) than the current rate:

	<u>1% Decrease (6.60%)</u>	<u>Current Discount Rate (7.60%)</u>	<u>1% Increase (8.60%)</u>
College's proportionate share of the net pension liability	\$29,350,432	\$15,942,071	\$4,781,381

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

Payables to the Pension Plan. At June 30, 2017, the College reported a payable of \$80,790 for the College portion and \$38,457 for the employee portion for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2017.

HIS Pension Plan

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

Benefits Provided. For the fiscal year ended June 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2017, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The College contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The College's contributions to the HIS Plan totaled \$399,414 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a net pension liability of

\$9,140,602 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within one year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.078429231 percent, which was a decrease of 0.005437289 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$586,579. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experiences	\$ -	\$ 20,819
Change of assumptions	1,434,393	-
Net difference between projected and actual earnings on HIS Plan investments	4,622	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	-	933,142
College contributions subsequent to the measurement date	399,414	-
Total	\$ 1,838,429	\$ 953,961

The deferred outflows of resources totaling \$399,414, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 81,065
2019	81,065
2020	80,185
2021	79,762
2022	75,118
Thereafter	87,859
Total	\$ 485,054

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

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Municipal bond rate	2.85 percent

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

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

Discount Rate. The discount rate used to measure the total pension liability was 2.85 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 3.80 percent from the prior measurement date.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 2.85 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	<u>1% Decrease (1.85%)</u>	<u>Current Discount Rate (2.85%)</u>	<u>1% Increase (3.85%)</u>
College's proportionate share of the net pension liability	\$10,486,347	\$9,140,602	\$8,023,707

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

Payables to the Pension Plan. At June 30, 2017, the College reported a payable of \$32,032 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2017.

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 of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the

Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2016-17 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30
FRS, Senior Management Service	7.67
FRS, Special Risk Regular	14.00

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the College.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The College's Investment Plan pension expense totaled \$356,769 for the fiscal year ended June 30, 2017.

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes 5.15 percent of the participant's salary to the participant's account and 2.83 percent to cover the unfunded actuarial liability of the FRS pension plan, for a total of 7.98 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 \$109,192, and employee contributions totaled \$64,632 for the 2016-17 fiscal year.

Senior Management Service Optional Annuity Program. Section 121.055, Florida Statutes, created the Senior Management Service Optional Annuity Program (Annuity Program) as an optional retirement program for College employees that are members of the FRS Senior Management Service Class.

The Annuity Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. College employees in eligible positions make an irrevocable election to participate in the Annuity Program in lieu of the Senior Management Service Class of FRS, and purchase retirement and death benefits through contracts with participating provider companies. The College contributes 6.1 percent of the participant's salary to the participant's account and 15.67 percent to cover the unfunded actuarial liability of the FRS pension plan for a total of 21.77 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by salary reduction, an additional amount not to exceed the percentage contributed by the College. These contributions are invested in the companies selected by the employee to create a fund for the purchase of annuities at retirement.

The College's contributions to the Annuity Program totaled \$16,775, and employee contributions totaled \$2,206 for the 2016-17 fiscal year.

13. Construction Commitments

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

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
New Fitness Center			
Architect	\$ 27,211	\$ 26,311	\$ 900
Baars Building Replacement			
Architect	1,767,446	268,261	1,499,185
Lamar Studio Landscaping			
Consultant	25,000	15,500	9,500
Total	\$ 1,819,657	\$ 310,072	\$ 1,509,585

14. Risk Management Programs

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

15. Functional Distribution of Operating Expenses

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 23,146,135
Public Services	3,211,613
Academic Support	4,884,728
Student Services	7,412,162
Institutional Support	11,437,728
Operation and Maintenance of Plant	9,703,012
Scholarships and Waivers	12,821,507
Depreciation	2,852,095
Total Operating Expenses	<u><u>\$ 75,468,980</u></u>

16. Discretely Presented Component Units

The College has two discretely presented component units as discussed in Note 1. These component units represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is from the most recently available audited financial statements for the component units:

Condensed Statement of Net Position

	Direct-Support Organizations		
	Pensacola	WSRE-TV	
	State College	Foundation, Inc.	Total
	Foundation, Inc.	Foundation, Inc.	
Assets:			
Current Assets	\$ 13,289,729	\$ 1,048,288	\$ 14,338,017
Capital Assets, Net	-	23,231	23,231
Other Noncurrent Assets	10,500,256	1,956,943	12,457,199
Total Assets	23,789,985	3,028,462	26,818,447
Liabilities:			
Current Liabilities	251,274	120,941	372,215
Noncurrent Liabilities	181,800	-	181,800
Total Liabilities	433,074	120,941	554,015
Net Position:			
Investment in Capital Assets	-	23,231	23,231
Restricted Nonexpendable	10,158,395	-	10,158,395
Restricted Expendable	12,260,722	1,137,973	13,398,695
Unrestricted	937,794	1,746,317	2,684,111
Total Net Position	\$ 23,356,911	\$ 2,907,521	\$ 26,264,432

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

	Direct-Support Organizations		
	Pensacola	WSRE-TV	
	State College	Foundation, Inc.	Total
	Foundation, Inc.	Foundation, Inc.	
Operating Revenues	\$ 1,656,923	\$ 1,105,427	\$ 2,762,350
Depreciation Expense	-	(6,014)	(6,014)
Operating Expenses	(2,310,959)	(919,875)	(3,230,834)
Operating Income (Loss)	(654,036)	179,538	(474,498)
Net Nonoperating Revenues	1,534,363	184,626	1,718,989
Other Revenues	421,728	-	421,728
Increase in Net Position	1,302,055	364,164	1,666,219
Net Position, Beginning of Year	22,054,856	2,543,357	24,598,213
Net Position, End of Year	\$ 23,356,911	\$ 2,907,521	\$ 26,264,432

17. Related Party Transactions

The College leases a portion of a College-owned building complex known as the College Centre, together with adjacent parking areas, to the Pensacola State College Foundation, Inc. (Foundation). The leased property is used by the Foundation as apartments for students on athletic scholarships and for coaches or counselors assigned by the College to supervise and counsel the student athletes. The lease requires

the Foundation to make monthly payments of \$3,714 to the College through July 31, 2017, the end of the lease term.

The College also leases College-owned land and buildings located on Metzger Drive, Pensacola, Escambia County, Florida to the Foundation. The leased property is used by the Foundation as residential apartments for the general public. The lease requires the Foundation to make annual payments of \$1 to the College through June 30, 2023, the end of the lease term. At the option of the Foundation, the lease is renewable for a 1-year term through June 30, 2024.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	\$ -	\$ 1,223,867	\$ 1,223,867	0%	\$ 24,529,439	5.0%
7/1/2013	-	1,239,244	1,239,244	0%	25,996,779	4.8%
7/1/2015	-	928,615	928,615	0%	24,270,706	3.8%

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

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

	2016 (1)	2015 (1)	2014 (1)	2013 (1)
College's proportion of the FRS net pension liability	0.063136719%	0.071557043%	0.076178452%	0.072086431%
College's proportionate share of the FRS net pension liability	\$ 15,942,071	\$ 9,242,554	\$ 4,648,006	\$ 12,409,283
College's covered payroll (2)	\$ 26,311,174	\$ 24,893,556	\$ 26,059,165	\$ 26,292,027
College's proportionate share of the FRS net pension liability as a percentage of its covered payroll	60.59%	37.13%	17.84%	47.20%
FRS Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%	88.54%

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

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

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

	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 1,585,019	\$ 1,547,605	\$ 1,744,621	\$ 1,668,631
FRS contributions in relation to the contractually required contribution	(1,585,019)	(1,547,605)	(1,744,621)	(1,668,631)
FRS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll (2)	\$ 26,297,216	\$ 26,311,174	\$ 24,893,556	\$ 26,059,165
FRS contributions as a percentage of covered payroll	6.03%	5.88%	7.01%	6.40%

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

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

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

	2016 (1)	2015 (1)	2014 (1)	2013 (1)
College's proportion of the HIS net pension liability	0.078429231%	0.083866520%	0.089074080%	0.092115890%
College's proportionate share of the HIS net pension liability	\$ 9,140,602	\$ 8,553,066	\$ 8,328,644	\$ 8,019,899
College's covered payroll (2)	\$ 26,311,174	\$ 24,893,556	\$ 26,059,165	\$ 26,292,027
College's proportionate share of the HIS net pension liability as a percentage of its covered payroll	34.74%	34.36%	31.96%	30.50%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%	0.99%	1.78%

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

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

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

	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required HIS contribution	\$ 399,414	\$ 402,224	\$ 320,590	\$ 305,138
HIS contributions in relation to the contractually required HIS contribution	(399,414)	(402,224)	(320,590)	(305,138)
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll (2)	\$ 24,142,865	\$ 26,311,174	\$ 24,893,556	\$ 26,059,165
HIS contributions as a percentage of covered payroll	1.65%	1.53%	1.29%	1.17%

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

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

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

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

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

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 3.80 percent to 2.85 percent.



Sherrill F. Norman, CPA
Auditor General

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

INDEPENDENT AUDITOR'S REPORT 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 Pensacola State College, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 30, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
January 30, 2018