

Report No. 2018-125
March 2018

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

TALLAHASSEE COMMUNITY 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. James T. Murdaugh served as President of Tallahassee Community College and the following individuals served as Members of the Board of Trustees:

	<u>County</u>
Randolph M. Pople, Chair from 8-15-16, Vice Chair through 8-14-16	Gadsden
Jonathan A. Kilpatrick, Vice Chair from 8-15-16	Wakulla
Donna G. Callaway, Chair through 8-14-16	Leon
Eugene Lamb	Gadsden
Frank S. Messersmith	Wakulla
Karen B. Moore	Leon
G. Kevin Vaughn	Leon

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 Cheryl B. Buchanan, CPA, and the audit was supervised by Edward A. Waller, 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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TALLAHASSEE COMMUNITY COLLEGE
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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Tallahassee Community 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 Tallahassee Community 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;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements; and
- Taken corrective actions for the finding included in our report No. 2017-169.

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

AUDITOR GENERAL STATE OF FLORIDA

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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 Tallahassee Community 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 Tallahassee Community 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 21, 2018, on our consideration of the Tallahassee Community 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 Tallahassee Community College's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
February 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2017, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2017, and June 30, 2016.

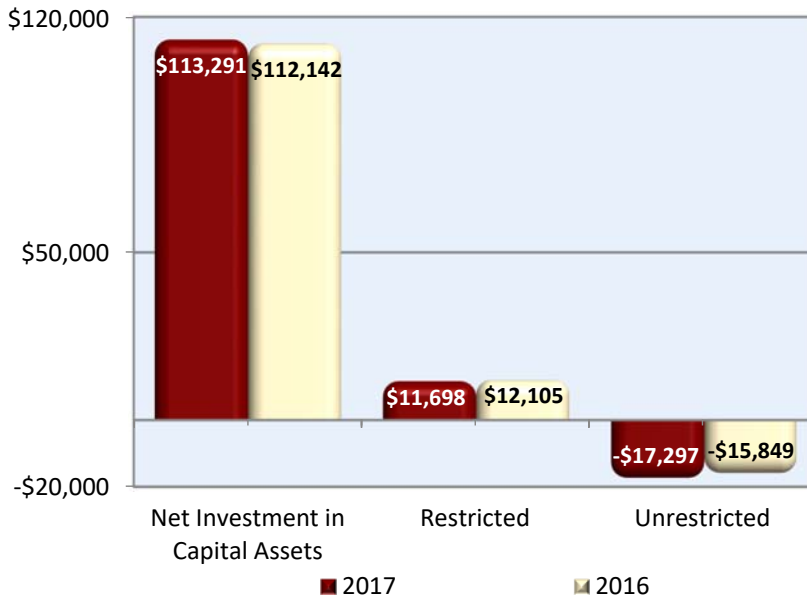
FINANCIAL HIGHLIGHTS

The College's assets totaled \$165.3 million at June 30, 2017. This balance reflects a \$5.7 million, or 3.6 percent, increase as compared to the 2015-16 fiscal year, resulting from an increase of \$7.1 million in capital assets due to the acquisition of capital lease assets and an increase of \$2.5 million in noncurrent restricted cash and cash equivalents, offset by a decrease of \$4.6 million in current cash and cash equivalents, and a decrease of \$0.4 million in current restricted cash and cash equivalents. While assets grew, liabilities also increased by \$17 million or 33.1 percent totaling \$68.4 million at June 30, 2017, compared to \$51.3 million at June 30, 2016, due primarily to capital lease debt incurred to purchase assets and the effects of the addition of pension liabilities due to the third year of adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, the College's net position totaled \$107.7 million which was a minimal decrease of 0.7 percent as compared to the 2015-16 fiscal year.

The College's operating revenues totaled \$37.4 million for the 2016-17 fiscal year, representing a 2.3 percent decrease compared to the 2015-16 fiscal year due mainly to decreases in student tuition and fees, net, and Federal grants and contracts. Operating expenses totaled \$101.7 million for the 2016-17 fiscal year, representing a decrease of 1.5 percent as compared to the 2015-16 fiscal year due mainly to a decrease in payments for contractual services and scholarships and waivers offset by an increase in payments for personnel services.

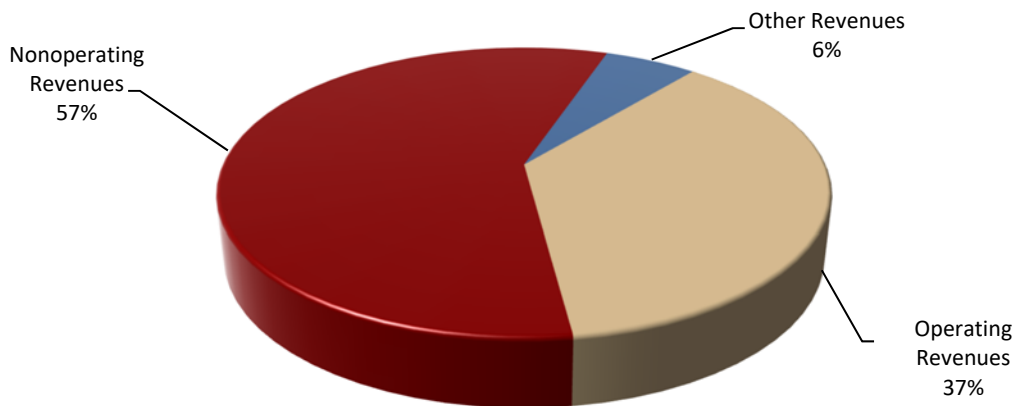
Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, is shown in the 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. These component units include: Tallahassee Community College Foundation, Inc. (Foundation) and the Public Safety Academy Housing, Inc. (PSAH). Based on the

application of the criteria for determining component units, the Foundation and PSAH are included within the College 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. This MD&A focuses on the College, excluding the discretely presented component units. For those component units reporting under GASB standards, MD&A information is included in their separately issued audit reports.

The Statement of Net Position

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

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

Condensed Statement of Net Position at June 30

(In Thousands)

	2017	2016
Assets		
Current Assets	\$ 22,773	\$ 26,666
Capital Assets, Net	132,498	125,365
Other Noncurrent Assets	10,046	7,597
Total Assets	165,317	159,628
Deferred Outflows of Resources	14,515	6,194
Liabilities		
Current Liabilities	6,019	6,572
Noncurrent Liabilities	62,345	44,777
Total Liabilities	68,364	51,349
Deferred Inflows of Resources	3,776	6,075
Net Position		
Net Investment in Capital Assets	113,291	112,142
Restricted	11,698	12,105
Unrestricted	(17,297)	(15,849)
Total Net Position	\$ 107,692	\$ 108,398

Total assets increased primarily from capitalization of completed projects and the acquisition of capital lease assets of \$7.1 million. Deferred outflows of resources increased by \$8.3 million, due to changes in actuarial valuation of the pension liability from the prior year.

Total liabilities increased primarily from incurring \$7.1 million in capital lease liabilities and from an \$11.6 million increase in net pension liability.

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

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

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

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

(In Thousands)

	<u>2016-17</u>	<u>2015-16</u>
Operating Revenues	\$ 37,369	\$ 38,263
Less, Operating Expenses	<u>101,749</u>	<u>103,322</u>
Operating Loss	(64,380)	(65,059)
Net Nonoperating Revenues	<u>57,754</u>	<u>59,169</u>
Loss Before Other Revenues	(6,626)	(5,890)
Other Revenues	<u>5,920</u>	<u>5,825</u>
Net Decrease In Net Position	<u>(706)</u>	<u>(65)</u>
Net Position, Beginning of Year	<u>108,398</u>	<u>108,463</u>
Net Position, End of Year	<u><u>\$ 107,692</u></u>	<u><u>\$ 108,398</u></u>

Operating Revenues

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

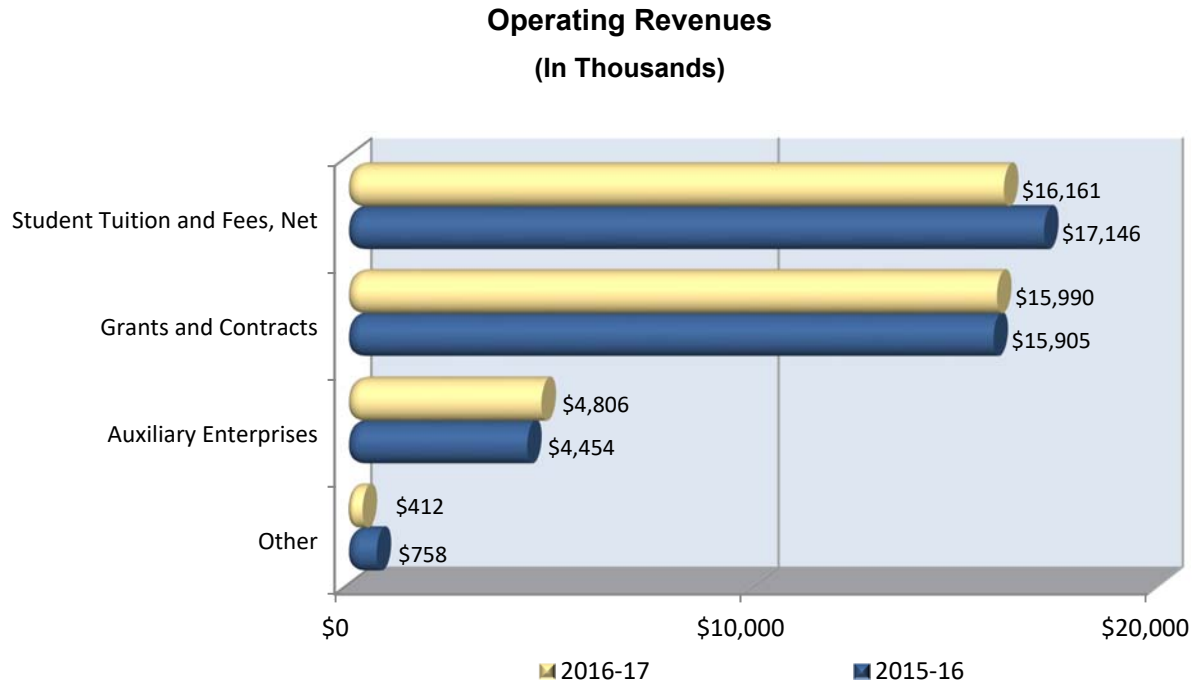
The following summarizes the operating revenues by source that were used to fund operating activities for the 2016-17 and 2015-16 fiscal years:

**Operating Revenues
For the Fiscal Years**

(In Thousands)

	<u>2016-17</u>	<u>2015-16</u>
Student Tuition and Fees, Net	\$ 16,161	\$ 17,146
Grants and Contracts	15,990	15,905
Auxiliary Enterprises	4,806	4,454
Other	<u>412</u>	<u>758</u>
Total Operating Revenues	<u><u>\$ 37,369</u></u>	<u><u>\$ 38,263</u></u>

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



College operating revenue changes were the result of a decrease in student tuition and fees, net of scholarship allowances, of \$1 million, or 5.7 percent, due to a decline in enrollment.

Operating Expenses

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

The following summarizes operating expenses by natural classification for the 2016-17 and 2015-16 fiscal years:

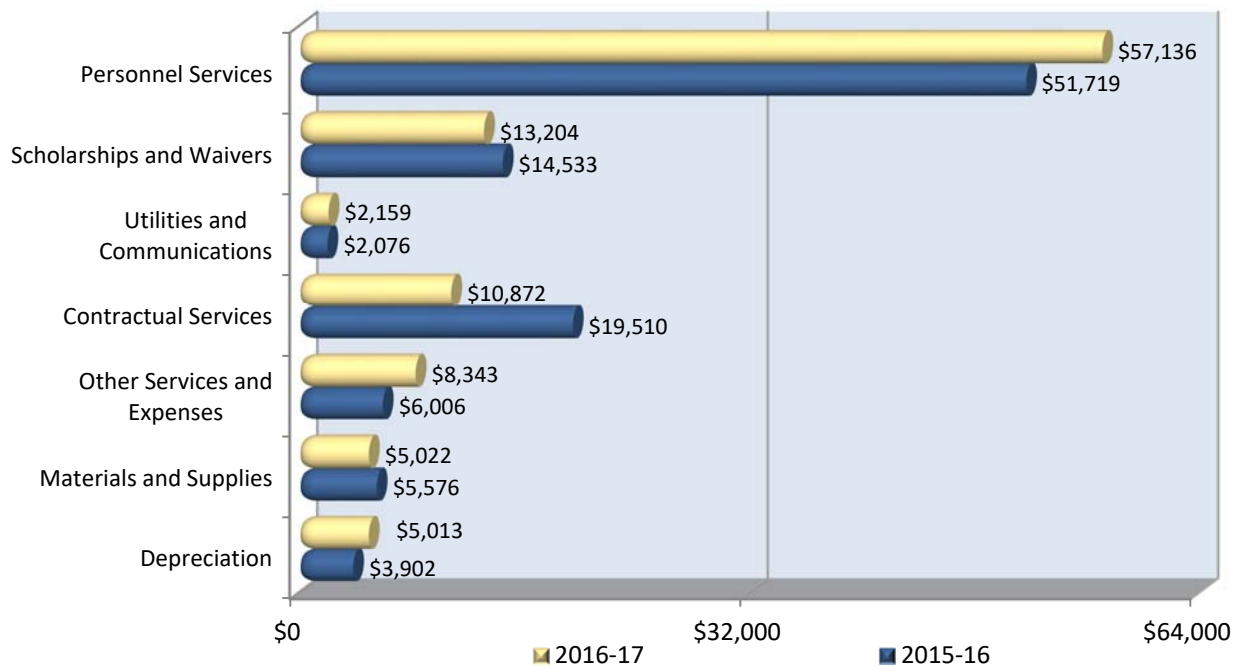
Operating Expenses For the Fiscal Years

(In Thousands)

	2016-17	2015-16
Personnel Services	\$ 57,136	\$ 51,719
Scholarships and Waivers	13,204	14,533
Utilities and Communications	2,159	2,076
Contractual Services	10,872	19,510
Other Services and Expenses	8,343	6,006
Materials and Supplies	5,022	5,576
Depreciation	5,013	3,902
Total Operating Expenses	\$ 101,749	\$ 103,322

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

Operating Expenses (In Thousands)



College operating expense changes were the result of an increase of \$5.4 million in salary payments. As indicated in the following table, the recording of net pension liability adjustments increased current expenses by \$1 million for salary and benefit payments. Additionally, a \$0.5 million increase in compensated absences expense is due to increases in related liability calculations. This increase was offset by a decrease of \$6.9 million, or 22 percent, in combined spending on contractual services, material and supplies, and other services and expenses, mainly due to decreased spending on noncapital equipment, repairs, and renovations of \$3.4 million, and decreases in contractual services spending related to grants and contracts of \$2.4 million. As part of a Florida College System effort to improve

consistencies between institutions in 2017, classifications of some expenditures were changed, causing significant variances between these three categories.

<u>Pension Plan</u>	<u>Pension Expense</u>	<u>Expenditures Reclassified to Deferred Outflows</u>	<u>Effects of Recording Net Pension on Salary and Benefits Payments</u>
FRS	\$ 3,278,860	\$ (2,392,006)	\$ 886,854
HIS	729,046	(600,208)	128,838
Total	\$ 4,007,906	\$ (2,992,214)	\$ 1,015,692

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) For the Fiscal Years

(In Thousands)

	<u>2016-17</u>	<u>2015-16</u>
State Noncapital Appropriations	\$ 34,462	\$ 33,953
Federal and State Student Financial Aid	23,577	25,509
Gifts and Grants	285	242
Investment Income	5	45
Other Nonoperating Revenues	-	26
Interest on Capital Asset-Related Debt	(575)	(606)
Net Nonoperating Revenues	\$ 57,754	\$ 59,169

Increases in State noncapital appropriations of \$0.5 million were offset by a decrease in Federal and State student financial aid revenues of \$1.9 million, or 7.6 percent, which resulted from a decline in enrollment.

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, expenses, gains, or losses for the 2016-17 and 2015-16 fiscal years:

**Other Revenues
For the Fiscal Years
(In Thousands)**

	2016-17	2015-16
State Capital Appropriations	\$ 2,646	\$ 1,113
Capital Grants, Contracts, Gifts, and Fees	3,274	4,712
Total	\$ 5,920	\$ 5,825

The increase in other revenue is due primarily to a \$1.5 million increase in State Public Education Capital Outlay (PECO) appropriations, which was offset by decreases in capital grants of \$1.4 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 financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

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

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

	2016-17	2015-16
Cash Provided (Used) by:		
Operating Activities	\$ (59,148)	\$ (63,090)
Noncapital Financing Activities	58,324	59,714
Capital and Related Financing Activities	(1,753)	14
Investing Activities	9	54
Net Decrease in Cash and Cash Equivalents	(2,568)	(3,308)
Cash and Cash Equivalents, Beginning of Year	29,609	32,917
Cash and Cash Equivalents, End of Year	\$ 27,041	\$ 29,609

Major sources of funds came from State noncapital appropriations (\$34.5 million), Federal and State Student Financial Aid (\$23.6 million), net student tuition and fees (\$15.8 million), grants and contracts (\$15.9 million), and auxiliary enterprise receipts (\$4.6 million). Major uses of funds were for payments to employees and for employee benefits (\$55.6 million), payments to suppliers (\$24.7 million), payments for scholarships (\$13.2 million), and purchases of capital assets (\$5.1 million).

Changes in cash and cash equivalents were the result of the following factors: cash flows used by operating activities decreased by \$3.9 million, primarily due to a decrease of \$7.3 million in payments to

suppliers. Also, cash used by capital and related financing activities decreased by \$1.8 million, due to a decrease in the purchase of capital assets (\$3.1 million), decrease of proceeds from capital debt (\$1 million), and a decrease in cash for state capital appropriations (\$3.3 million).

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

Capital Assets

At June 30, 2017, the College had \$216.5 million in capital assets, less accumulated depreciation of \$84 million, for net capital assets of \$132.5 million. Depreciation charges for the current fiscal year totaled \$5 million. The following table summarizes the College’s capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30		
(In Thousands)		
	2017	2016
Land	\$ 9,556	\$ 9,556
Construction in Progress	6,257	5,451
Buildings	107,260	107,891
Other Structures and Improvements	1,005	544
Furniture, Machinery, and Equipment	1,299	1,306
Assets Under Capital Leases	7,121	617
Capital Assets, Net	\$132,498	\$125,365

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

Capital Expenses and Commitments

Major capital expenses through June 30, 2017, were incurred on the new Enterprise Resource Planning System. The College’s major construction commitments at June 30, 2017, are as follows:

	Amount (In Thousands)
Total Committed	\$ 8,863
Completed to Date	(6,257)
Balance Committed	\$ 2,606

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 \$19.2 million in outstanding State Board of Education (SBE) capital outlay and capital improvement revenue bonds payable, note payable, and capital leases payable,

representing an increase of \$5.5 million, or 40.1 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt at June 30

(In Thousands)

	2017	2016
Florida Department of Education		
Capital Improvement Revenue Bonds	\$ 8,525	\$ 9,105
SBE Capital Outlay Bonds	2,665	2,855
Note Payable	895	1,032
Capital Leases	7,122	721
Total	\$ 19,207	\$ 13,713

The 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 \$0.8 million. Additional information about the College’s long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College’s economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the 2017-18 fiscal year. In response, the Board of Trustees did not increase the tuition rate for the Fall 2017 term. The College’s current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Dr. Barbara Wills, Vice President for Administrative Services, Tallahassee Community College, 444 Appleyard Drive, Tallahassee, Florida 32304.

BASIC FINANCIAL STATEMENTS

TALLAHASSEE COMMUNITY 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	\$ 15,328,931	\$ 87,726
Restricted Cash and Cash Equivalents	1,721,830	-
Investments	564,983	2,592,917
Accounts Receivable, Net	2,678,894	2,240,159
Notes Receivable, Net	5,264	-
Due from Other Governmental Agencies	2,417,722	-
Due from Component Units	258	-
Inventories	53,760	-
Prepaid Expenses	-	46,827
Deposits Receivable	1,000	-
Total Current Assets	22,772,642	4,967,629
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	9,990,233	-
Restricted Investments	55,594	10,785,564
Depreciable Capital Assets, Net	116,684,799	6,196,993
Nondepreciable Capital Assets	15,813,212	-
Other Assets	-	851,198
Total Noncurrent Assets	142,543,838	17,833,755
TOTAL ASSETS	165,316,480	22,801,384
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	14,515,338	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,124,057	73,390
Salary and Payroll Taxes Payable	821,392	-
Unearned Revenue	493,256	2,365
Deposits Held for Others	773,753	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	725,000	-
Notes Payable	141,000	542,783
Capital Leases Payable	307,639	-
Special Termination Benefits Payable	465,435	-
Compensated Absences Payable	785,082	-
Net Pension Liability	382,772	-
Total Current Liabilities	6,019,386	618,538

TALLAHASSEE COMMUNITY COLLEGE
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2017

	College	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	10,465,000	-
Notes Payable	754,000	4,776,088
Capital Leases Payable	6,814,443	-
Special Termination Benefits Payable	438,270	-
Compensated Absences Payable	4,108,748	-
Other Postemployment Benefits Payable	3,247,406	-
Net Pension Liability	36,516,850	-
Total Noncurrent Liabilities	62,344,717	4,776,088
TOTAL LIABILITIES	68,364,103	5,394,626
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	3,775,742	-
NET POSITION		
Net Investment in Capital Assets	113,290,929	878,122
Restricted:		
Nonexpendable:		
Endowment	-	6,377,518
Expendable:		
Grants and Loans	120,736	-
Scholarships	-	9,093,719
Capital Projects	10,722,474	-
Debt Service	854,866	-
Unrestricted	(17,297,032)	1,057,399
TOTAL NET POSITION	\$ 107,691,973	\$ 17,406,758

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

TALLAHASSEE COMMUNITY 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 \$12,077,692	\$ 16,161,021	\$ -
Federal Grants and Contracts	8,934,894	-
State and Local Grants and Contracts	6,225,061	-
Nongovernmental Grants and Contracts	830,379	-
Auxiliary Enterprises	4,805,933	-
Other Operating Revenues	412,073	6,674,848
Total Operating Revenues	37,369,361	6,674,848
EXPENSES		
Operating Expenses:		
Personnel Services	57,135,824	526,250
Scholarships and Waivers	13,203,626	616,329
Utilities and Communications	2,159,026	2,232
Contractual Services	10,872,015	300,864
Other Services and Expenses	8,343,461	3,119,216
Materials and Supplies	5,021,723	64,917
Depreciation	5,013,252	251,179
Total Operating Expenses	101,748,927	4,880,987
Operating Income (Loss)	(64,379,566)	1,793,861
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	34,462,498	-
Federal and State Student Financial Aid	23,576,534	-
Gifts and Grants Received for Other Than Capital or Endowment Purposes	284,897	-
Investment Income	4,702	1,391,116
Interest on Capital Asset-Related Debt	(575,113)	(160,836)
Net Nonoperating Revenues (Expenses)	57,753,518	1,230,280
Income (Loss) Before Other Revenues	(6,626,048)	3,024,141
State Capital Appropriations	2,646,366	-
Capital Grants, Contracts, Gifts, and Fees	3,274,078	-
Total Other Revenues	5,920,444	-
Increase (Decrease) in Net Position	(705,604)	3,024,141
Net Position, Beginning of Year	108,397,577	14,382,617
Net Position, End of Year	\$ 107,691,973	\$ 17,406,758

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

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TALLAHASSEE COMMUNITY COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 15,833,915
Grants and Contracts	15,943,136
Payments to Suppliers	(24,691,575)
Payments for Utilities and Communications	(2,159,026)
Payments to Employees	(44,796,968)
Payments for Employee Benefits	(10,798,281)
Payments for Scholarships	(13,203,933)
Loans Issued to Students	(21,054)
Collection on Loans to Students	11,455
Auxiliary Enterprises	4,578,345
Other Receipts	155,534
	(59,148,452)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	34,462,498
Federal and State Student Financial Aid	23,576,534
Federal Direct Loan Program Receipts	16,618,333
Federal Direct Loan Program Disbursements	(16,618,333)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	284,897
	58,323,929
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	2,434,642
Capital Grants and Gifts	3,046,424
Purchases of Capital Assets	(5,070,740)
Principal Paid on Capital Debt and Leases	(1,588,681)
Interest Paid on Capital Debt and Leases	(575,113)
	(1,753,468)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	4,815
Investment Income	4,702
	9,517
Net Decrease in Cash and Cash Equivalents	(2,568,474)
Cash and Cash Equivalents, Beginning of Year	29,609,468
Cash and Cash Equivalents, End of Year	\$ 27,040,994

TALLAHASSEE COMMUNITY COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)

For the Fiscal Year Ended June 30, 2017

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (64,379,566)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,013,252
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	(907,544)
Inventories	(30,081)
Prepaid Expenses	1,000
Accounts Payable	(180,515)
Salaries and Payroll Taxes Payable	(147,852)
Unearned Revenue	319,233
Deposits Held for Others	(256,538)
Special Termination Benefits Payable	(13,522)
Compensated Absences Payable	172,495
Other Postemployment Benefits Payable	245,494
Net Pension Liability	11,636,489
Deferred Outflows of Resources Related to Pensions	(8,321,657)
Deferred Inflows of Resources Related to Pensions	(2,299,140)
	\$ (59,148,452)

**SUPPLEMENTAL DISCLOSURE OF NONCASH
CAPITAL FINANCING ACTIVITIES**

The College issued capital lease debt to purchase energy savings equipment. Because payments were made directly from the lender to the vendor, cash and cash equivalents were not affected. \$ 7,082,476

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 Tallahassee Community 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 seven 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 Gadsden, Leon, and Wakulla 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:

- Tallahassee Community College Foundation, Inc. (Foundation): 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.
- Public Safety Academy Housing, Inc. (PSAH): This legally separate organization was established to obtain financing to construct a 200-room housing facility for students at the College's Florida Public Safety Institute. The housing facility was completed on January 4, 2006. Upon completion, PSAH executed an agreement with the College whereby the College leases the housing facility from PSAH and is responsible for operating and maintaining the facility. In exchange, PSAH receives a monthly lease payment in the amount of its mortgage payments and operating expenses. During the 2016-17 fiscal year, these lease and note transactions accounted for substantially all of the PSAH financial activity.

The Foundation and PSAH 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 Foundation and PSAH 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 Foundation and PSAH receive, hold, invest, and administer property, and make expenditures to or for the benefit of the College.

The Foundation and PSAH are audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation and PSAH audited financial statements are available to the public and can be obtained from the Vice President for Administrative Services, Tallahassee Community College, 444 Appleyard Drive, Tallahassee, Florida 32304. The financial data reported on the accompanying

financial statements was derived from the Foundation and PSAH audited financial statements for the fiscal year ended March 31, 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:
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows
 - Notes to Financial Statements
- Other Required Supplementary Information

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

The College's component units use the economic resources measurement focus and the accrual basis of accounting, and the Foundation follows FASB standards of accounting and financial reporting for not-for-profit organizations. The PSAH follows GASB standards of accounting and financial reporting.

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

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

(net of unrealized gains or losses on investments). Interest on capital asset-related debt is a nonoperating expense. Other revenues generally include revenues for capital construction projects.

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College calculated the scholarship allowance by determining the total financial aid received for the fiscal year, then excluding all loan assistance from this total. The College then applied the average for scholarship allowance percentage to tuition and fees for the previous 5 years to the current year tuition and fees, then applied the product as the current year scholarship allowance.

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 pools to be cash equivalents.

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

At June 30, 2017, the College reported as cash equivalents \$53,771 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 39 days as of June 30, 2017. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at amortized cost. Section 218.409(8)(a), Florida Statutes, states that "the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys

in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days." As of June 30, 2017, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

Capital Assets. College capital assets consist of land, construction in progress, buildings, other structures and improvements, furniture, machinery, and equipment, and assets under capital leases. These assets are capitalized and recorded at cost at the date of acquisition or at acquisition value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 to \$65,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Vehicles, Office Machines, and Educational Equipment – 5 years
 - Furniture – 7 years
- Assets Under Capital Leases – 5 to 15 years

Land, buildings, and equipment of the College's component units are stated at cost, except for donated property, which is stated at fair market value at the date of donation and is net of accumulated depreciation of \$2,887,447. The College's component units depreciated buildings and equipment over an estimated useful life of 39 years for buildings and improvements and from 5 to 7 years for furniture and equipment.

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

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

2. Deficit Net Position in Individual Funds

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

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$(20,347,524)
Auxiliary Funds	3,050,492
Total	<u>\$(17,297,032)</u>

3. Investments

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

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

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

The College's investments at June 30, 2017, are reported as follows:

Investments by fair value level	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
SBA Debt Service Accounts	\$ 55,594	\$ 55,594	\$ -	\$ -
Certificates of Deposit	564,983	564,983	-	-
Total investments by fair value level	\$ 620,577	\$ 620,577	\$ -	\$ -

State Board of Administration Debt Service Accounts

The College reported investments totaling \$55,594 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. 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.

Certificates of Deposit

The College reported investments totaling \$564,983 at June 30, 2017, in certificates of deposits (CDs) with two banks. The investments in CDs were fully insured by the Federal Deposit Insurance Corporation, except for \$105,300 in investments not insured. The CDs carry original maturity dates of 12 months with annual percentage interest rates between 0.10 and 0.20 percent.

Component Unit Investments

The investments reported by the College's component units consisted of those held by the Tallahassee Community College Foundation, Inc. at March 31, 2017, are reported at fair value as follows:

<u>Investment Type</u>	<u>Amount</u>
Mutual Funds	\$ 13,240,508
Money Market Funds	137,970
State Board of Administration Fund	3
Total Investments	\$ 13,378,481

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 \$501,723 allowance for doubtful accounts.

5. Notes Receivable

Notes receivable represent student loans made for veteran students' fees and the short-term loan program of \$32,715. Notes receivable are reported net of a \$27,451 allowance for doubtful notes.

6. Due From Other Governmental Agencies

The amount due from other governmental agencies consists of \$731,453 of Public Education Capital Outlay allocations due from the State for construction of College facilities, and \$1,686,269 from Federal and State agencies for contracts and grants and other services.

7. Capital Assets

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions (1)</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 9,556,301	\$ -	\$ -	\$ 9,556,301
Construction in Progress	5,451,137	4,132,976	3,327,202	6,256,911
Total Nondepreciable Capital Assets	\$ 15,007,438	\$ 4,132,976	\$ 3,327,202	\$ 15,813,212
Depreciable Capital Assets:				
Buildings	\$ 164,348,635	\$ 3,327,202	\$ -	\$ 167,675,837
Other Structures and Improvements	11,446,483	2,701,070	-	14,147,553
Furniture, Machinery, and Equipment	10,885,386	954,985	240,626	11,599,745
Assets Under Capital Leases	2,892,420	7,082,476	2,701,070	7,273,826
Total Depreciable Capital Assets	189,572,924	14,065,733	2,941,696	200,696,961
Less, Accumulated Depreciation:				
Buildings	56,457,409	3,958,439	-	60,415,848
Other Structures and Improvements	10,902,320	2,239,989	-	13,142,309
Furniture, Machinery, and Equipment	9,579,723	937,909	216,708	10,300,924
Assets Under Capital Leases	2,275,666	308,377	2,430,962	153,081
Total Accumulated Depreciation	79,215,118	7,444,714	2,647,670	84,012,162
Total Depreciable Capital Assets, Net	\$ 110,357,806	\$ 6,621,019	\$ 294,026	\$ 116,684,799

Note: (1) The difference between additions to accumulated depreciation and depreciation expense for the current year is due to the reclassification of accumulated depreciation related to a capital lease that was paid in full and other minor corrections to accumulated depreciation.

8. Unearned Revenue

Unearned revenue at June 30, 2017, includes advanced funding for contracts and grants and student tuition and fees received prior to the fiscal year end related to subsequent accounting periods. As of June 30, 2017, the College reported the following amounts as unearned revenue:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 481,524
Student Tuition and Fees	11,732
Total Unearned Revenue	\$ 493,256

9. Long-Term Liabilities

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 11,960,000	\$ -	\$ 770,000	\$ 11,190,000	\$ 725,000
Note Payable	1,032,000	-	137,000	895,000	141,000
Capital Leases Payable	721,287	7,082,746	681,951	7,122,082	307,639
Special Termination Benefits Payable	917,228	332,773	346,296	903,705	465,435
Compensated Absences Payable	4,721,245	578,782	406,197	4,893,830	785,082
Other Postemployment Benefits Payable	3,001,912	412,601	167,107	3,247,406	-
Net Pension Liability	25,263,133	21,490,035	9,853,546	36,899,622	382,772
Total Long-Term Liabilities	\$ 47,616,805	\$ 29,896,937	\$ 12,362,097	\$ 65,151,645	\$ 2,806,928

Bonds Payable. Various bonds were issued to finance capital outlay projects of the College. The following is a description of the bonded debt issues:

- **SBE Capital Outlay Bonds.** 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.
- **Capital Improvement Revenue Bonds, Series 2006A.** These bonds are authorized by Article VII, Section 11(d) of the Florida Constitution; Sections 215.57 through 215.83 and 1009.23, Florida Statutes; and other applicable provisions of law. Principal and interest on these bonds are secured by and payable solely from a first lien pledge of the capital improvement fees collected pursuant to Section 1009.23(11), Florida Statutes, by the Series 2006A participating colleges on a parity with any additional bonds issued subsequent to the issuance of the Series 2006A bonds. The Series 2006A bonds constitute the first series of bonds to be issued pursuant to a Master Authorizing Resolution. Upon the issuance of additional bonds, all bonds will share a parity first lien on the pledged revenues of all colleges participating in any series of bonds then outstanding. The Series 2006A bonds will share the lien of such additional bonds on the Series 2006A pledged revenues and on the revenues pledged by the colleges participating in such additional bonds. The bonds were issued for new construction and renovation and remodeling of educational facilities.

The College had the following bonds payable at June 30, 2017:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds:			
Series 2009A	\$ 2,195,000	4 - 5	2029
Series 2010A	470,000	3.5 - 5	2030
Florida Department of Education Capital Improvement Revenue Bonds:			
Series 2006A	8,525,000	3.5 - 5	2027
Total	\$ 11,190,000		

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

Fiscal Year Ending June 30	SBE Capital Outlay Bonds and Capital Improvement Revenue Bonds		
	Principal	Interest	Total
2018	\$ 725,000	\$ 493,688	\$ 1,218,688
2019	765,000	456,687	1,221,687
2020	815,000	417,812	1,232,812
2021	860,000	377,562	1,237,562
2022	910,000	335,038	1,245,038
2023 - 2027	5,455,000	956,700	6,411,700
2028 - 2030	1,660,000	64,350	1,724,350
Total	\$ 11,190,000	\$ 3,101,837	\$ 14,291,837

Mortgage Notes Payable – Component Unit. On November 10, 2014, the PSAH refinanced the mortgage payable for \$6,017,876 with an interest rate of 2.75 percent. The note is collateralized by a leasehold mortgage in real estate and first priority security interest in all personal property located at the facility. The note is also collateralized by the assignment of rents and leases related to the housing facility.

Also on November 10, 2014, the PSAH executed another mortgage note payable for improvements to the property. The amount of the note is \$575,000 with an interest rate of 3.99 percent. The note is collateralized by a leasehold mortgage in real estate and first priority security interest in all personal property located at the facility. The note is also collateralized by the assignment of rents and leases related to the housing facility. Annual requirements to amortize the outstanding notes as of March 31, 2017, are as follows:

Fiscal Year Ending March 31	Principal	Interest	Total
2018	\$ 542,783	\$ 132,292	\$ 675,075
2019	605,071	131,202	736,273
2020	622,398	113,875	736,273
2021	641,369	94,904	736,273
2022	660,346	75,930	736,276
2023-2025	2,246,904	171,986	2,418,890
Total	\$ 5,318,871	\$ 720,189	\$ 6,039,060

Note Payable. On May 18, 2016, the College borrowed \$1,032,000, at a stated interest rate of 2.31 percent, to finance the cost of the advanced manufacturing training facility. The interest rate for this note was reduced to 1.8 percent beginning on April 1, 2017. The note matures on October 1, 2023, and principal and interest payments are made biannually in April and October of each year. Annual requirements to amortize the outstanding note as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 141,000	\$ 15,480	\$ 156,480
2019	144,000	12,924	156,924
2020	147,000	10,323	157,323
2021	151,000	7,659	158,659
2022	155,000	4,923	159,923
2023	157,000	2,124	159,124
Total	<u>\$ 895,000</u>	<u>\$ 53,433</u>	<u>\$ 948,433</u>

Capital Leases Payable. Energy saving equipment in the amount of \$7,082,476 and computer equipment in the amount of \$191,350 are being acquired under capital lease agreements. The stated interest rates are 2.21 percent and 3 percent, respectively. Future minimum payments remaining under the capital lease agreements and the present value of the minimum payments as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 581,513
2019	474,695
2020	472,853
2021	487,263
2022	502,106
2023 - 2027	2,749,236
2028 - 2032	3,192,097
2033	170,267
Total Minimum Payments	8,630,030
Less, Amount Representing Interest	1,507,948
Present Value of Minimum Payments	<u>\$ 7,122,082</u>

Special Termination Benefits Payable. Under a Board-established Retirement Incentive Program, employees who were hired prior to July 1, 1995, and elect to retire within 36 months from the achievement of normal retirement, as defined in Sections 121.091 and 238.07, Florida Statutes, receive an incentive payment of 10 percent based on their salary at retirement. In addition, the employee receives payment for a maximum of 1,440 hours of sick leave. The College reported a special termination benefits payable of \$903,705 as of June 30, 2017, for 25 employees who gave notice to retire under the Retirement Incentive Program, of which \$465,435 represents the current portion.

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 \$4,893,830. The current portion of the compensated absences liability, \$785,082, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

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

Plan Description. The College contributes to an agent multiple-employer defined benefit plan administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Other Postemployment Benefits Plan (OPEB Plan) at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary health coverage as soon as they are eligible. Neither the College or 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 has established and can amend OPEB Plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the other postemployment benefit (OPEB) costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2016-17 fiscal year, 206 retirees received postemployment healthcare benefits, and 114 retirees received postemployment life insurance benefits. The College provided required contributions of \$167,107 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$1,033,479, which represents 2.8 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 225,402
Amortization of Unfunded Actuarial Accrued Liability	<u>167,187</u>
Annual Required Contribution	392,589
Interest on Net OPEB Obligation	120,076
Adjustment to Annual Required Contribution	<u>(100,064)</u>
Annual OPEB Cost (Expense)	412,601
Contribution Toward the OPEB Cost	<u>(167,107)</u>
Increase in Net OPEB Obligation	245,494
Net OPEB Obligation, Beginning of Year	<u>3,001,912</u>
Net OPEB Obligation, End of Year	<u><u>\$ 3,247,406</u></u>

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

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014-15	\$ 416,421	43.2%	\$ 2,760,027
2015-16	401,394	39.7%	3,001,912
2016-17	412,601	40.5%	3,247,406

Funded Status and Funding Progress. As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$4,769,842, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$4,769,842 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$36,840,991 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 12.9 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 cost actuarial method to estimate the actuarial accrued liability as of June 30, 2017, and the College's 2016-17 fiscal year ARC. This method was selected because it produced the lowest OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year, an inflation rate of 2.6 percent per year, and an annual healthcare cost trend rate of 7.5 percent pre-Medicare and 5.5 percent Medicare for the 2016-17 fiscal year, reduced by decrements to an ultimate rate of 5 percent in 2020 for pre-Medicare and in 2017 for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 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 \$36,899,622. Note 10. includes a complete discussion of defined benefit pension plans.

10. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the HIS Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class employed by the State and faculty and specified employees of State colleges.

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

other relevant information, is available from the Florida Department of Management Services Web site (www.dms.myflorida.com).

The College's FRS and HIS pension expense totaled \$4,007,906 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 \$2,392,006 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 \$23,622,599 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 0.093554556 percent, which was a decrease of 0.007570089 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$3,278,860. 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	\$ 1,808,728	\$ 219,942
Change of assumptions	1,429,097	-
Net difference between projected and actual earnings on FRS Plan investments	6,106,153	-
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	88,930	1,688,421
College FRS contributions subsequent to the measurement date	2,392,006	-
Total	<u>\$ 11,824,914</u>	<u>\$ 1,908,363</u>

The deferred outflows of resources \$2,392,006, 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	\$ 933,705
2019	933,705
2020	3,314,263
2021	2,147,424
2022	144,515
Thereafter	50,933
Total	<u>\$ 7,524,545</u>

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	<u>100%</u>			
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	\$43,490,804	\$23,622,599	\$7,084,942

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

HIS Pension Plan

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

Benefits Provided. For the fiscal year ended June 30, 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 \$600,208 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 \$13,277,023 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 0.113921024 percent, which was a decrease of 0.005720264 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$729,046. 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	\$ -	\$ 30,240
Change of assumptions	2,083,503	-
Net difference between projected and actual earnings on HIS Plan investments	6,713	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	-	1,837,139
College contributions subsequent to the measurement date	600,208	-
Total	<u>\$ 2,690,424</u>	<u>\$ 1,867,379</u>

The deferred outflows of resources totaling \$600,208, 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	\$ (5,230)
2019	(5,230)
2020	(6,509)
2021	(7,122)
2022	89,627
Thereafter	157,301
Total	<u>\$ 222,837</u>

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

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

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

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

Discount Rate. The discount rate used to measure the total pension liability was 2.85 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate

selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 3.80 percent from the prior measurement date.

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

	<u>1% Decrease (1.85%)</u>	<u>Current Discount Rate (2.85%)</u>	<u>1% Increase (3.85%)</u>
College’s proportionate share of the net pension liability	\$15,231,762	\$13,277,023	\$11,654,697

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.

11. Retirement Plans – Defined Contribution Pension Plans

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member’s account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2016-17 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30
FRS, Senior Management Service	7.67
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 \$508,579 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 \$61,232 for the 2016-17 fiscal year.

12. Construction Commitment

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

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Enterprise Resource Planning System: Architect/Other	\$ 8,863,308	\$ 6,256,911	\$ 2,606,397

13. Risk Management Programs

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

14. Functional Distribution of Operating Expenses

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 31,316,790
Public Services	980,043
Academic Support	6,456,772
Student Services	9,528,813
Institutional Support	23,883,357
Operation and Maintenance of Plant	7,513,244
Scholarships and Waivers	13,203,626
Depreciation	5,013,252
Auxiliary Enterprises	3,853,030
Total Operating Expenses	\$ 101,748,927

15. 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		Total
	Tallahassee Community College Foundation, Inc. 3/31/2017	Public Safety Academy Housing, Inc. 3/31/2017	
Assets:			
Current Assets	\$ 4,959,677	\$ 7,952	\$ 4,967,629
Capital Assets, Net	-	6,196,993	6,196,993
Other Noncurrent Assets	11,636,762	-	11,636,762
Total Assets	16,596,439	6,204,945	22,801,384
Liabilities:			
Current Liabilities	75,755	542,783	618,538
Noncurrent Liabilities	-	4,776,088	4,776,088
Total Liabilities	75,755	5,318,871	5,394,626
Net Position:			
Net Investment in Capital Assets	-	878,122	878,122
Restricted Nonexpendable	6,377,518	-	6,377,518
Restricted Expendable	9,093,719	-	9,093,719
Unrestricted	1,049,447	7,952	1,057,399
Total Net Position	\$ 16,520,684	\$ 886,074	\$ 17,406,758

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

	<u>Direct-Support Organizations</u>		<u>Total</u>
	<u>Tallahassee Community College Foundation, Inc. 3/31/2017</u>	<u>Public Safety Academy Housing, Inc. 3/31/2017</u>	
Operating Revenues	\$ 5,971,048	\$ 703,800	\$ 6,674,848
Depreciation Expense	-	(251,179)	(251,179)
Operating Expenses	(4,622,514)	(7,294)	(4,629,808)
Operating Income	1,348,534	445,327	1,793,861
Net Nonoperating Revenues (Expenses):			
Nonoperating Revenues	1,391,116	-	1,391,116
Interest Expense	-	(160,836)	(160,836)
Net Nonoperating Revenues (Expenses)	1,391,116	(160,836)	1,230,280
Increase in Net Position	2,739,650	284,491	3,024,141
Net Position, Beginning of Year	13,781,034	601,583	14,382,617
Net Position, End of Year	\$ 16,520,684	\$ 886,074	\$ 17,406,758

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	\$ -	\$ 5,386,710	\$ 5,386,710	0%	\$ 37,835,863	14.2%
7/1/2013	-	5,128,091	5,128,091	0%	32,210,525	15.9%
7/1/2015	-	4,769,842	4,769,842	0%	35,876,423	13.3%

Note: (1) The OPEB actuarial valuation used the projected unit credit actuarial 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	0.093554556%	0.101124645%	0.108531737%	0.107545498%
College's proportionate share of the FRS net pension liability	\$ 23,622,599	\$ 13,061,604	\$ 6,622,032	\$ 18,513,367
College's covered payroll (2)	\$ 37,908,655	\$ 39,130,532	\$ 41,223,425	\$ 45,155,227
College's proportionate share of the FRS net pension liability as a percentage of its covered payroll	62.31%	33.38%	16.06%	41.00%
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	\$ 2,392,006	\$ 2,281,477	\$ 2,465,505	\$ 2,377,306
FRS contributions in relation to the contractually required contribution	(2,392,006)	(2,281,477)	(2,465,505)	(2,377,306)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
College's covered payroll (2)	\$ 38,764,986	\$ 37,908,655	\$ 39,130,532	\$ 41,223,425
FRS contributions as a percentage of covered payroll	6.17%	6.02%	6.30%	5.77%

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

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

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

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.113921024%	0.119641288%	0.128963797%	0.144080709%
College's proportionate share of the HIS net pension liability	\$ 13,277,023	\$ 12,201,529	\$ 12,058,430	\$ 12,544,120
College's covered payroll (2)	\$ 37,908,655	\$ 39,130,532	\$ 41,223,425	\$ 45,155,227
College's proportionate share of the HIS net pension liability as a percentage of its covered payroll	35.02%	31.18%	29.25%	27.78%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%	0.99%	1.78%

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

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

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

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 600,208	\$ 583,918	\$ 457,343	\$ 441,787
HIS contributions in relation to the contractually required HIS contribution	(600,208)	(583,918)	(457,343)	(441,787)
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll (2)	\$ 36,600,741	\$ 37,908,655	\$ 39,130,532	\$ 41,223,425
HIS contributions as a percentage of covered payroll	1.55%	1.54%	1.17%	1.07%

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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

**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 Tallahassee Community 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 February 21, 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
February 21, 2018

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for the finding included in our report No. 2017-169.