

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

PASCO-HERNANDO STATE COLLEGE

For the Fiscal Year Ended
June 30, 2017



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2016-17 fiscal year, Dr. Timothy L. Beard served as President of Pasco-Hernando State College and the following individuals served as Members of the Board of Trustees:

	<u>County</u>
Edward C. Blommel, Chair from 7-20-16, Vice Chair through 7-19-16	Pasco
John Dougherty, Vice Chair from 7-20-16 through 6-27-17 ^a	Hernando
Morris R. Porton, Chair through 7-19-16	Hernando
Dr. Jeffrey E. Harrington from 3-24-17 ^b	Pasco
Alvaro A. Hernandez from 3-24-17 ^b	Pasco
Dr. S.K. Rao Musunuru	Pasco
Marilyn Pearson-Adams	Hernando
Robin L. Schneider	Hernando
Ardian Zika	Pasco

^a Trustee position and Vice Chair vacant 6-28-17, through 6-30-17.

^b Trustee position vacant 7-1-16, through 3-23-17.

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

The team leader was Brian Werthmiller, CPA, and the audit was supervised by Eric Davis, 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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PASCO-HERNANDO STATE COLLEGE
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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

AUDIT OBJECTIVES AND SCOPE

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

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

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

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

AUDIT METHODOLOGY

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



Sherrill F. Norman, CPA
Auditor General

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

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

Other Matter

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 16, 2018, on our consideration of the Pasco-Hernando State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON**

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 16, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

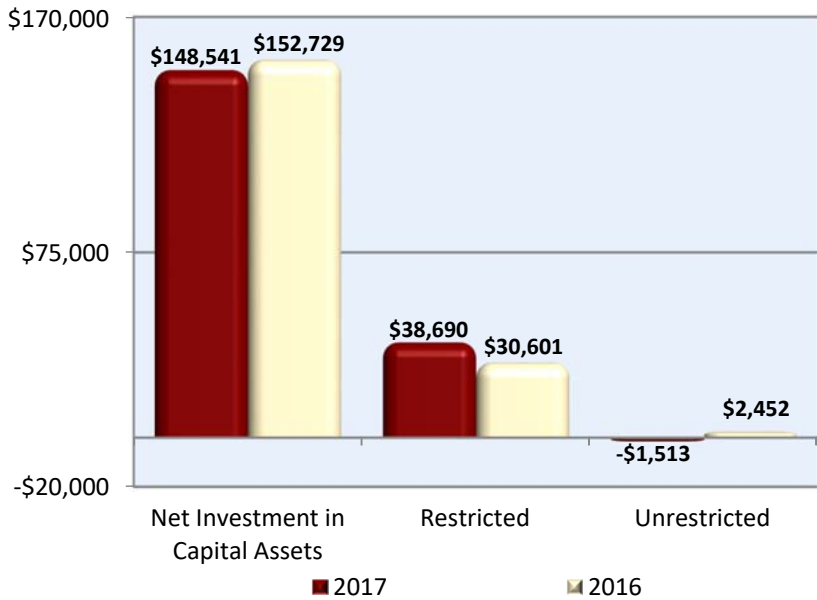
FINANCIAL HIGHLIGHTS

The College's assets and deferred outflows totaled \$225.1 million at June 30, 2017. This balance reflects an increase of \$5.8 million, or 2.6 percent, compared to the 2015-16 fiscal year, resulting primarily from an increase in deferred outflows related to GASB Statement No. 68 reporting. While assets and deferred outflows grew, liabilities and deferred inflows also increased \$5.9 million, or 17.4 percent, totaling \$39.4 million at June 30, 2017, compared to \$33.5 million at June 30, 2016. This is primarily attributed to the increased liability for the Florida Retirement System (FRS) pension plan and the Health Insurance Subsidy of \$8.1 million as required by GASB Statement No. 68. While this is and remains a liability of the FRS, GASB Statement No. 68 requires that this liability, owed to College employees in the future, be reported in the College's financial statements. GASB Statement No. 68 also requires colleges to record annual changes in actuarial assumptions and contributions to the retirement plan for the current year as deferred outflows and/or deferred inflows of resources which effects the college's net pension liability and unrestricted net position. Consequently, ending net position decreased \$0.1 million resulting in a year-end net asset balance of \$185.7 million.

The College's operating revenues totaled \$16.7 million for the 2016-17 fiscal year, representing a 3.4 percent decrease compared to the 2015-16 fiscal year due mainly to \$0.5 million for scholarships being reported as non-operating revenues instead of operating revenues in the 2016-17 fiscal year. Operating expenses totaled \$75.7 million for the 2016-17 fiscal year, representing an increase of 4 percent as compared to the 2015-16 fiscal year due mainly to an increase in pension related personnel services expenses totaling \$2.2 million.

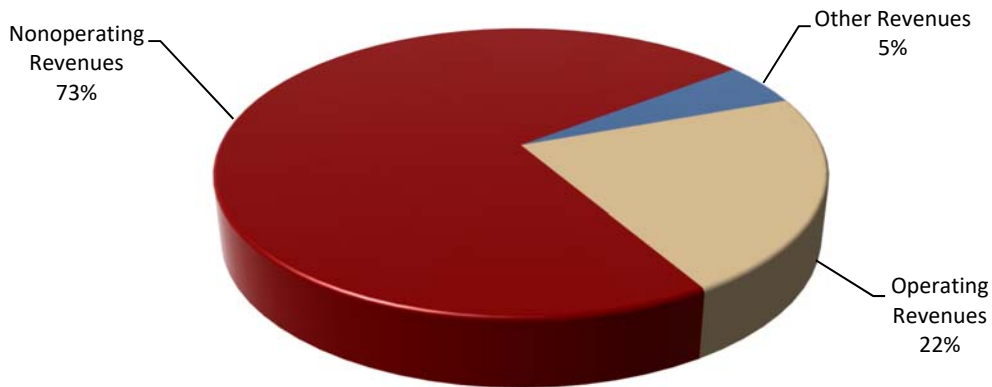
Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, is shown in the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

**Net Position
(In Thousands)**



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

**Total Revenues
2016-17 Fiscal Year**



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the College’s financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, encompass the College and its component unit, Pasco-Hernando State College Foundation, Inc. (Foundation). Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida. Based on the application of the criteria

for determining component units, the Foundation is included within the College reporting entity as a discretely presented component unit. Information regarding Foundation including copies of the separately issued financial statements can be obtained from the Office of the Vice President, Administration and Finance, 10230 Ridge Road, New Port Richey, Florida, 34654.

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

The Statement of Net Position

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

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

Condensed Statement of Net Position at June 30 (In Thousands)

	2017	2016
Assets		
Current Assets	\$ 39,615	\$ 39,773
Capital Assets, Net	153,160	158,496
Other Noncurrent Assets	21,005	14,442
Total Assets	213,780	212,711
Deferred Outflows of Resources	11,295	6,584
Liabilities		
Current Liabilities	8,253	7,631
Noncurrent Liabilities	30,621	23,790
Total Liabilities	38,874	31,421
Deferred Inflows of Resources	483	2,092
Net Position		
Net Investment in Capital Assets	148,541	152,729
Restricted	38,690	30,601
Unrestricted	(1,513)	2,452
Total Net Position	\$ 185,718	\$ 185,782

The College's assets increased by \$1.1 million, or 0.5 percent, from the 2015-16 fiscal year. This change was primarily the result of a \$6.6 million increase in other noncurrent assets associated with increases in restricted Cash and Cash Equivalents and noncurrent prepaid expenses, partially offset by the \$5.3 million decrease in capital assets related to an increase in accumulated depreciation of the College's

Buildings and Other Structures and Improvements. Deferred outflows increased \$4.7 million compared to the 2015-2016 fiscal year resulting from an increase in deferred outflows related to GASB Statement No. 68 reporting.

The College's total liabilities also increased by \$7.5 million, or 23.7 percent, from the 2015-16 fiscal year. This increase was primarily due to the increase of the College's share of the net pension liability for the FRS pension plan and the HIS plan required under GASB Statement No. 68 reporting.

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)

	2016-17	2015-16
Operating Revenues	\$ 16,719	\$ 17,305
Less, Operating Expenses	75,706	72,770
Operating Loss	(58,987)	(55,465)
Net Nonoperating Revenues	55,214	50,569
Loss Before Other Revenues	(3,773)	(4,896)
Other Revenues	3,709	9,954
Net Increase (Decrease) In Net Position	(64)	5,058
Net Position, Beginning of Year	185,782	180,724
Net Position, End of Year	\$ 185,718	\$ 185,782

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

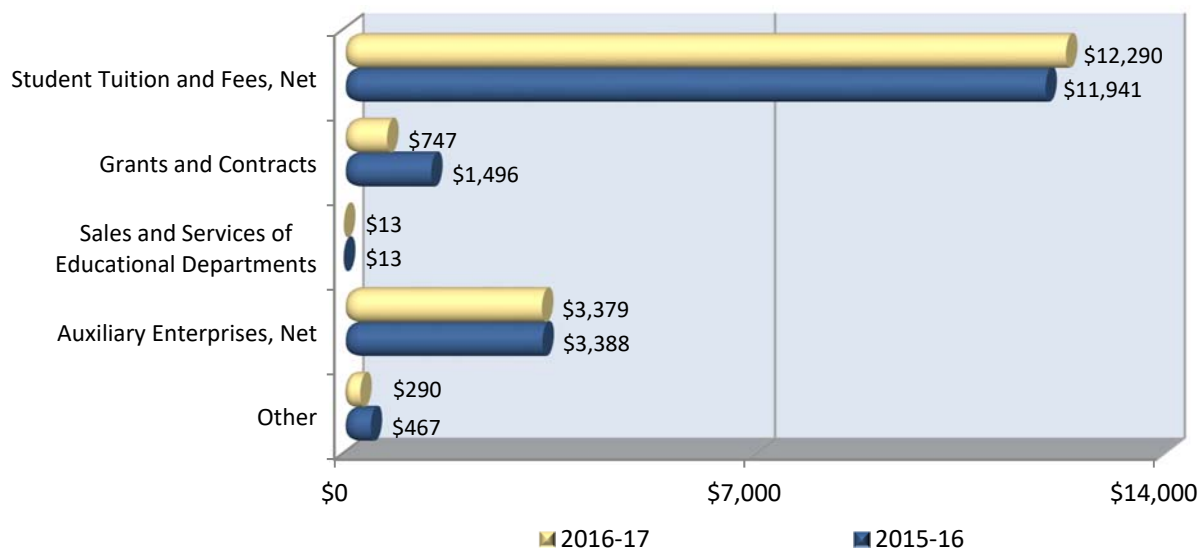
(In Thousands)

	2016-17	2015-16
Student Tuition and Fees, Net	\$ 12,290	\$ 11,941
Grants and Contracts	747	1,496
Sales and Services of Educational Departments	13	13
Auxiliary Enterprises, Net	3,379	3,388
Other	290	467
Total Operating Revenues	\$ 16,719	\$ 17,305

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

Operating Revenues

(In Thousands)



College operating revenue decreased from the previous year by \$0.6 million due mainly to \$0.5 million for scholarships being reported as non-operating revenues instead of operating revenues in the 2016-17 fiscal year.

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:

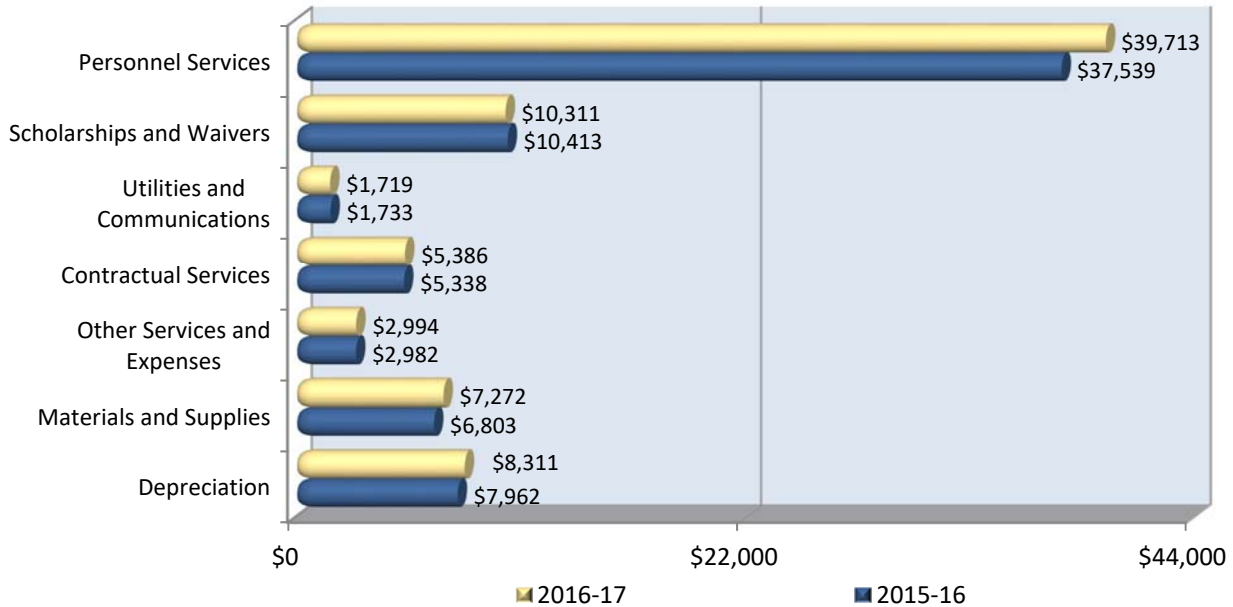
**Operating Expenses
For the Fiscal Years**

(In Thousands)

	<u>2016-17</u>	<u>2015-16</u>
Personnel Services	\$ 39,713	\$ 37,539
Scholarships and Waivers	10,311	10,413
Utilities and Communications	1,719	1,733
Contractual Services	5,386	5,338
Other Services and Expenses	2,994	2,982
Materials and Supplies	7,272	6,803
Depreciation	8,311	7,962
Total Operating Expenses	\$ 75,706	\$ 72,770

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

**Operating Expenses
(In Thousands)**



College operating expenses increased by \$2.9 million, or 4 percent, from \$72.8 million to \$75.7 million as a result of the following factors:

- Personnel services increased by \$2.2 million, or 5.8 percent, due to an increase in pension expense related to GASB Statement No. 68 reporting and a 2 percent mid-year non-recurring salary increase.
- Materials and supplies increased by \$0.5 million, or 6.9 percent, primarily due to an increase in non-capitalized repairs and maintenance at the West Campus.

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)

	2016-17	2015-16
State Noncapital Appropriations	\$ 32,468	\$ 27,886
Federal and State Student Financial Aid	20,029	21,618
Gifts and Grants	2,630	1,045
Investment Income	235	178
Gain on Sale of Capital Assets	5	9
Interest on Capital Asset-Related Debt	(153)	(167)
Net Nonoperating Revenues	\$ 55,214	\$ 50,569

Total nonoperating revenues for the college increased by \$4.6 million, or 9.2 percent, to \$55.2 million for the 2016-17 fiscal year due primarily to an increase in State Noncapital Appropriations of \$4.6 million, or 16.4 percent. This increase is partially attributed to the \$2.5 million received for future STEM programs, \$0.9 million of non-recurring performance funding received by the College, and \$0.7 million received due to a legislative reallocation of recurring general revenue to non-recurring lottery funds.

Other Revenues

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

**Other Revenues
For the Fiscal Years**

(In Thousands)

	2016-17	2015-16
State Capital Appropriations	\$ 967	\$ 7,171
Capital Grants, Contracts, Gifts, and Fees	2,742	2,783
Total	\$ 3,709	\$ 9,954

Total other revenues for the college decreased by \$6.2 million, or 62.7 percent, to \$3.7 million for the 2016-17 fiscal year based primarily on a decrease of \$6.2 million, or 86.5 percent, in State Capital Appropriations. The reduction is attributed to the College receiving its final funding of \$5.5 million for the Performing Arts Educational Center in fiscal year 2015-16 and not receiving any new PECO funding for the 2016-17 fiscal year.

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	\$ (48,489)	\$ (47,322)
Noncapital Financing Activities	55,440	50,550
Capital and Related Financing Activities	(479)	(2,715)
Investing Activities	238	183
Net Increase in Cash and Cash Equivalents	6,710	696
Cash and Cash Equivalents, Beginning of Year	33,652	32,956
Cash and Cash Equivalents, End of Year	\$ 40,362	\$ 33,652

Major sources of funds came from State noncapital appropriations (\$32.5 million); Federal and State student financial aid (\$20.3 million), net student tuition and fees (\$12.1 million); auxiliary services (\$3.6 million); and capital gifts and grants (\$2.8 million).

Major uses of funds were for payments to employees for salaries and benefits (\$38 million); payments to suppliers (\$15.5 million); disbursements to students for scholarships (\$10.3 million); and purchases of capital assets (\$3.1 million).

Changes in cash and cash equivalents were the result of the following factors:

- Net cash used by operating activities increased by \$1.2 million, as compared to the prior fiscal year. The major sources of cash used by operating activities include payments to employees for salaries and benefits (\$38 million), payments to suppliers (\$15.5 million), and scholarships (\$10.3 million).
- Cash provided by noncapital financing activities increased by \$4.9 million as compared to the prior fiscal year due primarily to an increase in state noncapital appropriations. This amount is partially comprised of \$2.5 million received for future STEM programs, \$0.9 million of non-recurring performance funding received by the College, and \$0.7 million received due to a legislative reallocation of recurring general revenue to non-recurring lottery funds.
- Cash used by capital related financing activities amounted to \$0.5 million for the 2016-17 fiscal year, which represents a \$2.2 million decrease as compared to the 2015-16 fiscal year. The decrease was due primarily to a decrease in the amount spent for the purchase of capital assets.

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

At June 30, 2017, the College had \$233.4 million in capital assets, less accumulated depreciation of \$80.2 million, for net capital assets of \$153.2 million. Depreciation charges for the current fiscal year totaled \$8.3 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	\$ 4,429	\$ 4,429
Construction in Progress	2,256	3,207
Buildings	121,252	122,454
Other Structures and Improvements	24,129	27,259
Furniture, Machinery, and Equipment	934	935
Assets Under Capital Lease	160	212
Capital Assets, Net	\$153,160	\$158,496

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 following projects:

- Construction in progress additions included East Campus window and door replacements as well as renovation of the Chiller Plant and Shooting Range. Also, renovation occurred for the envelope closures for buildings A, B, C, D and E; the Security Office in the I-Building, and the restrooms in M-Building at the West Campus, in addition to the renovation of the Pharmacy-LPN Lab in D-Building at the Porter Campus.
- Additions to buildings included the East Campus restroom remodeling; North Campus restroom remodeling and renovation of a new board room; re-roofing of A, B, C, D and E buildings at the West Campus; and removing and replacing the casework in A-Building at the Spring Hill Campus.
- Additions to other structure and improvements included perimeter road improvements and improvements to the West Campus parking lots.
- Furniture, machinery, and equipment additions consisted of technology equipment, computer related equipment, furniture, educational equipment, vehicles, and grounds equipment.

The College's major construction commitments, totaling \$4 million, at June 30, 2017, are as follows:

- East Campus door and window replacement
- East Campus shooting range improvements
- District-wide smoke free signage
- Porter Campus Pharmacy-LPN Lab renovation

- East Campus chiller plant addition
- West Campus envelope enclosure renovations
- West Campus M building restroom renovation
- West Campus security office renovation
- Performing Arts Educational Center – Wesley Chapel
- East Campus bus shelter/ADA Parking review

	Amount (In Thousands)
Total Committed	\$ 5,079
Completed to Date	(1,117)
Balance Committed	\$ 3,962

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 \$4.6 million in outstanding bonds, loan payable, and capital lease payable, representing a decrease of \$1.1 million, or 19.9 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt at June 30

(In Thousands)

	<u>2017</u>	<u>2016</u>
SBE Capital Outlay Bonds	\$ 1,880	\$ 1,975
Loan Payable	2,557	3,548
Capital Lease Payable	182	244
Total	\$ 4,619	\$ 5,767

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2016-17 fiscal year, there were no bond sales and debt repayments totaled \$1.1 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

Pasco-Hernando State College’s economic condition is closely tied to that of the State of Florida. The College expects a decrease in operating revenues of \$1.6 million in 2017-18 fiscal year, which is mainly attributed to a \$1.1 million decrease in lottery funding and a \$0.2 million decrease in non-recurring funding for STEM programs. The College’s institutional share of performance based funding at risk is anticipated to increase from \$0.7 million to \$0.8 million while the College’s state share of performance based funding is unknown at this time and has not been budgeted due to the State revising the performance measures.

Consequently, the College is currently unable to project where it will be classified for the 2017-18 fiscal year.

The College's approved fiscal year 2017-18 budget is based on projected student fee revenues of \$15.8 million calculated on an anticipated fee-paying enrollment of 6,534 full-time equivalent (FTE). The proposed budget is based on a combined trend of declining enrollment of 5 percent for non-Baccalaureate programs and an increased enrollment of 30 percent, or 97 FTE, for Baccalaureate programs in Nursing and Supervision and Management.

The College did not recommend an increase in baccalaureate, credit, or post-secondary adult vocational fees consistent with the governor's request. This is the fifth consecutive year that the College has not increased tuition. Pasco-Hernando State College's approved tuition rates remain among the lowest in the State and are within the allowable range of statutory adjustment flexibility and therefore will continue to be compliant with Florida Statutes.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President of Finance and Auxiliary Services, Pasco-Hernando State College, 10230 Ridge Road, New Port Richey, Florida 34654.

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BASIC FINANCIAL STATEMENTS

PASCO-HERNANDO STATE COLLEGE A Component Unit of the State of Florida Statement of Net Position

June 30, 2017

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 14,488,512	\$ 3,464,026
Restricted Cash and Cash Equivalents	5,031,232	-
Investments	-	157,290
Accounts Receivable, Net	954,892	-
Notes Receivable, Net	-	15,454
Due from Other Governmental Agencies	16,989,999	15,877
Due from Component Unit/College	205,502	1,386
Inventories	1,128,975	-
Prepaid Expenses	793,796	4,812
Other Assets	22,330	-
Total Current Assets	39,615,238	3,658,845
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	20,841,967	-
Investments	39,522	12,088,946
Restricted Investments	-	32,150,843
Due from Other Government Agencies	-	274,960
Notes Receivable, Net	-	2,501
Prepaid Expenses	123,164	-
Depreciable Capital Assets, Net	146,475,465	1,252
Nondepreciable Capital Assets	6,684,833	288,863
Total Noncurrent Assets	174,164,951	44,807,365
TOTAL ASSETS	213,780,189	48,466,210
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	11,295,138	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,243,391	43,469
Salary and Payroll Taxes Payable	2,437,024	-
Retainage Payable	82,731	-
Due to Other Governmental Agencies	6,540	-
Due to College	-	142,886
Unearned Revenue	65,765	63,077
Deposits Held for Others	2,521,600	274,960
Long-Term Liabilities - Current Portion:		
Bonds Payable	100,000	-
Loan Payable	1,009,198	-
Capital Lease Payable	65,905	-
Compensated Absences Payable	455,015	-
Net Pension Liability	266,180	-
Total Current Liabilities	8,253,349	524,392

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

June 30, 2017

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	1,780,000	-
Loan Payable	1,547,468	-
Capital Lease Payable	116,327	-
Compensated Absences Payable	3,106,861	-
Other Postemployment Benefits Payable	172,082	-
Net Pension Liability	23,898,272	-
Total Noncurrent Liabilities	30,621,010	-
TOTAL LIABILITIES	38,874,359	524,392
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	482,650	-
NET POSITION		
Net Investment in Capital Assets	148,541,400	290,115
Restricted:		
Nonexpendable:		
Endowment	-	26,114,171
Expendable:		
Grants and Loans	209,155	8,683,244
Scholarships	387,601	11,348,051
Capital Projects	38,053,186	-
Debt Service	39,522	-
Unrestricted	(1,512,546)	1,506,237
TOTAL NET POSITION	\$ 185,718,318	\$ 47,941,818

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

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

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$9,581,111	\$ 12,289,635	\$ -
Federal Grants and Contracts	676,919	-
State and Local Grants and Contracts	70,861	31,755
Nongovernmental Grants and Contracts	-	506,244
Sales and Services of Educational Departments	12,845	-
Auxiliary Enterprises, Net of Scholarship Allowances of \$2,086,451	3,378,706	-
Other Operating Revenues	289,921	475,930
Total Operating Revenues	16,718,887	1,013,929
EXPENSES		
Operating Expenses:		
Personnel Services	39,712,968	402,509
Scholarships and Waivers	10,311,327	1,409,330
Utilities and Communications	1,719,304	-
Contractual Services	5,385,656	153,621
Other Services and Expenses	2,993,962	39,264
Materials and Supplies	7,271,659	32,846
Depreciation	8,311,244	501
Total Operating Expenses	75,706,120	2,038,071
Operating Loss	(58,987,233)	(1,024,142)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	32,468,087	-
Federal and State Student Financial Aid	20,029,641	-
Gifts and Grants	2,630,006	-
Investment Income	234,988	693,603
Net Gain on Investments	-	2,159,215
Gain on Sale of Capital Assets	4,698	-
Interest on Capital Asset-Related Debt	(153,361)	-
Net Nonoperating Revenues	55,214,059	2,852,818
Income (Loss) Before Other Revenues	(3,773,174)	1,828,676
State Capital Appropriations	966,817	-
Capital Grants, Contracts, Gifts, and Fees	2,742,001	-
Additions to Endowments	-	94,643
Total Other Revenues	3,708,818	94,643
Increase (Decrease) in Net Position	(64,356)	1,923,319
Net Position, Beginning of Year	185,782,674	46,018,499
Net Position, End of Year	\$ 185,718,318	\$ 47,941,818

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

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PASCO-HERNANDO STATE COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 12,143,627
Grants and Contracts	675,635
Payments to Suppliers	(15,471,201)
Payments for Utilities and Communications	(1,719,304)
Payments to Employees	(29,813,107)
Payments for Employee Benefits	(8,188,932)
Payments for Scholarships	(10,311,327)
Auxiliary Enterprises, Net	3,615,307
Sales and Services of Educational Departments	12,845
Other Receipts	567,237
	(48,489,220)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	32,468,087
Federal and State Student Financial Aid	20,342,509
Federal Direct Loan Program Receipts	10,327,516
Federal Direct Loan Program Disbursements	(10,327,516)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	2,630,006
	55,440,602
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	1,126,200
Capital Grants and Gifts	2,780,061
Proceeds from Sale of Capital Assets	4,698
Purchases of Capital Assets	(3,088,368)
Principal Paid on Capital Debt and Leases	(1,148,255)
Interest Paid on Capital Debt and Leases	(153,361)
	(479,025)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	2,377
Investment Income	235,365
	237,742
Net Increase in Cash and Cash Equivalents	6,710,099
Cash and Cash Equivalents, Beginning of Year	33,651,612
Cash and Cash Equivalents, End of Year	\$ 40,361,711

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

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (58,987,233)
to Net Cash Used by Operating Activities:	
Depreciation Expense	8,311,244
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	388,799
Due from Other Governmental Agencies	(336,549)
Inventories	(66,044)
Prepaid Expenses	(157,628)
Other Assets	990
Accounts Payable	362,113
Due to Other Governmental Agencies	6,540
Salary and Payroll Taxes Payable	30,596
Unearned Revenue	7,492
Deposits Held for Others	270,127
Compensated Absences Payable	(122,159)
Other Postemployment Benefits Payable	28,692
Net Pension Liability	8,093,316
Deferred Outflows of Resources Related to Pensions	(4,710,398)
Deferred Inflows of Resources Related to Pensions	(1,609,118)
NET CASH USED BY OPERATING ACTIVITIES	\$ (48,489,220)

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

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

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

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public and can be obtained from the Vice President for Financial Services, Pasco-Hernando State College, 10230 Ridge Road, New Port Richey, Florida 34654. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 31, 2016.

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

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

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

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

The College's component unit uses the economic resources measurement focus and the accrual basis of accounting, and follows GASB standards of accounting and financial reporting.

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

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

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

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

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

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

At June 30, 2017, the College reported as cash equivalents at fair value \$10,773,873 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities (Level 3 inputs, as discussed in Note 3.). Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. The State Treasury SPIA investment pool carried a credit rating of A+f by Standard & Poor’s, had an effective duration of 2.8 years and fair value factor of 0.9923 at June 30, 2017. Participants contribute to the State Treasury SPIA investment pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool’s total fair value by the pool participant’s total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant’s pool balance. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State’s Comprehensive Annual Financial Report.

At June 30, 2017, the College reported as cash equivalents \$10,762,239 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.

Inventories. Inventories consist of items for resale by the campus bookstore, and are valued using the last invoice cost, which approximates the first-in, first-out, method of inventory valuation. Consumable laboratory supplies, teaching materials, and office supplies on hand in College departments are expensed when purchased, and are not considered material. Accordingly, these items are not included in the reported inventory.

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

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years

- Vehicles, Office Machines, and Educational Equipment – 5 years
- Furniture – 7 years
- Assets Under Capital Lease – 5 years

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

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

2. Deficit Net Position in Individual Funds

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

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (10,211,407)
Auxiliary Funds	<u>8,698,861</u>
Total	<u>\$ (1,512,546)</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.

State Board of Administration Debt Service Accounts

The College reported investments totaling \$39,522 at June 30, 2017, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College’s investments consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value (Level 1 inputs). The College relies on policies developed by the SBA for managing interest rate risk and credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State’s Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the Pasco-Hernando State College Foundation, Inc. (Foundation), at December 31, 2016, are reported at fair value (Level 1 and 3 inputs) as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Fair Value Measurements Using</u>	
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
United States Government Obligations	\$ 2,100,434	\$ 2,100,434	\$ -
Federal Agency Obligations	1,508,731	1,508,731	-
Corporate Bonds and Notes	3,725,702	3,725,702	-
Asset-Backed Securities	829,803	829,803	-
Mortgage-Backed Obligations	4,081,566	4,081,566	-
Equity Mutual Funds	14,613,751	14,613,751	-
Domestic Stocks and Other Equity Securities	17,537,092	12,335,317	5,201,775
Total Component Unit Investments	\$ 44,397,079	\$ 39,195,304	\$ 5,201,775

The following risks apply to the Foundation’s investments other than stocks and other equity securities:

Interest Rate Risk: Interest rate risk is the risk that changing interest rates will adversely affect the fair value of an investment. The Foundation’s investment policy, as a means of mitigating this risk, calls for maintaining significant balances in cash equivalents and other short-term investments as changing interest rates have limited impact on these securities prices and limiting the duration of bond investments to 80 to 120 percent of the fixed-income benchmark. Maturities of the Foundation’s investments in debt securities and mutual funds are shown in the following schedule:

Investment Type	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
United States Government Obligations	\$ 2,100,434	\$ 2,696	\$ 212,748	\$ 1,384,607	\$ 500,383
Federal Agency Obligations	1,508,731	-	428,272	332,638	747,821
Corporate Bonds and Notes	3,725,702	61,118	968,347	2,025,005	671,232
Asset-Backed Securities	829,803	-	605,716	64,319	159,768
Mortgage-Backed Securities	4,081,566	-	-	78,787	4,002,779
Equity Mutual Funds	14,613,751	14,613,751	-	-	-
Total	\$ 26,859,987	\$ 14,677,565	\$ 2,215,083	\$ 3,885,356	\$ 6,081,983

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality is evaluated by independent investment rating organizations such as Standard & Poor's and Moody's Investor Services. The lower the rating, the greater the risk that the bond issuer may default or fail to meet its payment obligations. Obligations of the United States government or obligations explicitly guaranteed by the United States government, are not considered to have credit risk. The Foundation's investment policy limits fixed income securities to those that are rated at least Baa2 by Moody's and BBB by Standard & Poor's. In addition, if investments are downgraded below the minimum rating, the security shall be sold within 10 trading days. At December 31, 2016, the Foundation's fixed income securities were rated as follows:

Investment Type	Standard & Poor's	Moody's	Percentage Total Debt Securities Investments
U.S. Government Obligations	AA+	Aaa	17%
Federal Agency Obligations	AA+	Aaa	12%
Corporate Bonds and Notes	AAA - BBB	Aaa - Baa2	31%
Asset-Backed Securities	AAA	Aaa	7%
Mortgage-Backed Securities	AAA - AA+	Aaa	33%

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial risk relates to investment securities that are held by someone other than the Foundation and are not registered in the Foundation's name. The Foundation's investment policy states that custodial credit risk for deposits will be mitigated by limiting deposits to the amount insured by the Federal Depositors Insurance Corporation (FDIC) for each banking institution. Custodial credit risk for investments will be mitigated by prohibiting investments in securities that are not eligible for depository trust company holding. The Foundation's fixed income securities are registered in the name of the Foundation and, according to industry standard, held in "book entry" format per the investment management agreements with the individual financial institutions managing those assets.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. The Foundation's investment policy limits the amount of investments with any one issuer to 5 percent of an investment manager's equity portfolio, except for investments in United States government guaranteed investments, mutual funds, external investment pools, and other

pooled investments. In addition, investments in nongovernmental bonds are limited to 2 percent of an investment manager's fixed income portfolio.

Foreign Currency Risk: Foreign currency risk is the possibility that changes in exchange rates between the United States dollar and foreign currencies could adversely affect an investment's fair value. As of December 31, 2016, the Foundation's portfolio did not hold any foreign bonds. The Foundation's investment policy limits foreign investments to 15 percent of the Foundation's assets, and prohibits the use of non-Depository Trust company eligible securities.

4. Accounts Receivable

Accounts receivable represent amounts from Federal Title IV repayments, student fee deferrals, various student services provided by the College, government receivables, unused credit memos, and third-party nongovernmental receivables. The accounts receivable are reported net of a \$482,338 allowance for uncollectible accounts.

5. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of \$16,078,964 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

6. Due From and To Component Unit/College

The amount due from component unit consists of amounts owed to the College by the Foundation for scholarships and student aid, and agreements to support a portion of the College's programs. The College's financial statements are reported for the fiscal year ended June 30, 2017. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2016. Accordingly, amounts reported by the College as due from component unit on the Statement of Net Position do not agree with amounts reported by the component unit as due to the College.

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</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 4,428,968	\$ -	\$ -	\$ 4,428,968
Construction in Progress	3,206,899	1,814,157	2,765,191	2,255,865
Total Nondepreciable Capital Assets	\$ 7,635,867	\$ 1,814,157	\$ 2,765,191	\$ 6,684,833
Depreciable Capital Assets:				
Buildings	\$ 168,522,631	\$ 2,732,555	\$ -	\$ 171,255,186
Other Structures and Improvements	48,604,673	702,537	-	49,307,210
Furniture, Machinery, and Equipment	5,592,222	503,016	239,464	5,855,774
Assets Under Capital Lease	265,863	-	-	265,863
Total Depreciable Capital Assets	222,985,389	3,938,108	239,464	226,684,033
Less, Accumulated Depreciation:				
Buildings	46,068,386	3,934,228	-	50,002,614
Other Structures and Improvements	21,346,103	3,832,038	-	25,178,141
Furniture, Machinery, and Equipment	4,657,376	491,805	227,713	4,921,468
Assets Under Capital Lease	53,172	53,173	-	106,345
Total Accumulated Depreciation	72,125,037	8,311,244	227,713	80,208,568
Total Depreciable Capital Assets, Net	\$ 150,860,352	\$ (4,373,136)	\$ 11,751	\$ 146,475,465

8. Unearned Revenue

As of June 30, 2017, unearned revenue of \$65,765 includes amounts collected for Pay-for-Print and College Gift Cards that have not been used.

9. Long-Term Liabilities

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

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 1,975,000	\$ -	\$ 95,000	\$ 1,880,000	\$ 100,000
Loan Payable	3,548,269	-	991,603	2,556,666	1,009,198
Capital Lease Payable	243,884	-	61,652	182,232	65,905
Compensated Absences Payable	3,684,035	217,445	339,604	3,561,876	455,015
Other Postemployment Benefits Payable	143,390	47,130	18,438	172,082	-
Net Pension Liability	16,071,136	17,919,460	9,826,144	24,164,452	266,180
Total Long-Term Liabilities	\$ 25,665,714	\$ 18,184,035	\$ 11,332,441	\$ 32,517,308	\$ 1,896,298

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

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds: Series 2010A	\$ 1,880,000	3.5 - 5.0	2030

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

<u>Fiscal Year Ending June 30</u>	<u>SBE Capital Outlay Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 100,000	\$ 78,900	\$ 178,900
2019	105,000	73,900	178,900
2020	110,000	69,700	179,700
2021	120,000	64,200	184,200
2022	125,000	58,200	183,200
2023-2027	750,000	203,750	953,750
2028-2030	570,000	46,400	616,400
Total	\$ 1,880,000	\$ 595,050	\$ 2,475,050

Loan Payable. On January 31, 2013, the College borrowed \$5,952,305, at a stated interest rate of 1.76 percent, to finance the cost capital improvements at all College locations. The loan matures on December 31, 2019, and principal and interest payments are made monthly. Annual requirements to amortize the outstanding loan as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 1,046,079
2019	1,046,079
2020	523,040
Total Minimum Payments	2,615,198
Less, Amount Representing Interest	58,532
Present Value of Minimum Payments	\$ 2,556,666

Capital Lease Payable. Copier equipment in the amount of \$265,863 is being acquired under a capital lease agreement. The imputed interest rate is 6.6897 percent. Future minimum payments under the capital lease agreement 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	\$ 75,931
2019	75,931
2020	44,293
Total Minimum Payments	196,155
Less, Amount Representing Interest	13,923
Present Value of Minimum Payments	\$ 182,232

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 \$3,561,876. The current portion of the compensated absences liability, \$455,015, 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 (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 Post Employment Benefit 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 program for their primary coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone 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 annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2016-17 fiscal year, 39 retirees received postemployment healthcare benefits and 58 retirees received postemployment life insurance benefits. The College provided required contributions of \$18,438 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 \$216,071, which represents 0.9 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)	\$ 30,818
Amortization of Unfunded Actuarial Accrued Liability	15,356
Annual Required Contribution	46,174
Interest on Net OPEB Obligation	5,736
Adjustment to Annual Required Contribution	(4,780)
Annual OPEB Cost (Expense)	47,130
Contribution Toward the OPEB Cost	(18,438)
Increase in Net OPEB Obligation	28,692
Net OPEB Obligation, Beginning of Year	143,390
Net OPEB Obligation, End of Year	<u>\$ 172,082</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>	Percentage of		
	<u>Annual</u>	<u>Annual</u>	<u>Net OPEB</u>
	<u>OPEB Cost</u>	<u>OPEB Cost</u>	<u>Obligation</u>
		<u>Contributed</u>	
2014-15	\$ 59,294	56.0%	\$ 122,766
2015-16	46,992	56.1%	143,390
2016-17	47,130	39.1%	172,082

Funded Status and Funding Progress. As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$415,618, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$415,618 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$24,554,815 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1.7 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members,

and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The College's OPEB actuarial valuation as of July 1, 2015, used the entry age normal actuarial method to estimate the actuarial accrued liability as of June 30, 2017, and the College's 2016-17 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, 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, and an annual healthcare cost trend rate of 6.75 percent pre-Medicare and 5.25 percent Medicare for the 2016-17 fiscal year, reduced by decrements to an ultimate rate of 5 percent in 2020 for pre-Medicare and 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 \$24,164,452. 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 \$3,487,763 for the fiscal year ended June 30, 2017.

FRS Pension Plan

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

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions.

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

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

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

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

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

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

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

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

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

The College's contributions to the Plan totaled \$1,563,940 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 \$14,931,605 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

0.059134887 percent, which was a decrease of 0.00255929 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$2,566,193. 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	\$ 1,143,279	\$ 139,023
Change of assumptions	903,317	-
Net difference between projected and actual earnings on FRS Plan investments	3,859,638	-
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	1,238,609	304,173
College FRS contributions subsequent to the measurement date	1,563,940	-
Total	\$ 8,708,783	\$ 443,196

The deferred outflows of resources \$1,563,940, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 1,083,844
2019	1,083,844
2020	2,588,570
2021	1,689,213
2022	204,388
Thereafter	51,788
Total	\$ 6,701,647

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	\$27,490,096	\$14,931,605	\$4,478,320

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 \$400,723 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a net pension liability of \$9,232,847 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 0.079220723 percent, which was a decrease of 0.000227859 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$921,570. 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>
Difference between expected and actual experience	\$ -	\$ 21,029
Change of assumptions	1,448,868	-
Net difference between projected and actual earnings on HIS Plan investments	4,668	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	732,096	18,425
College contributions subsequent to the measurement date	400,723	-
Total	<u>\$ 2,586,355</u>	<u>\$ 39,454</u>

The deferred outflows of resources totaling \$400,723, 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	\$ 410,953
2019	410,953
2020	410,064
2021	409,638
2022	306,068
Thereafter	198,502
Total	<u>\$ 2,146,178</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	\$10,592,173	\$9,232,847	\$8,104,681

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

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 \$488,294 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.

There were 21 College participants during the 2016-17 fiscal year. The College's contributions to the Program totaled \$75,542 and employee contributions totaled \$50,904 for the 2016-17 fiscal year.

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

The Annuity Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. College employees

in eligible positions make an irrevocable election to participate in the Annuity Program in lieu of the Senior Management Service Class of FRS, and purchase retirement and death benefits through contracts with participating provider companies. The College contributes 6.27 percent of the participant's salary to the participant's account and 15.41 percent to cover the unfunded actuarial liability of the FRS pension plan for a total of 21.68 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by salary reduction, an additional amount not to exceed the percentage contributed by the College. These contributions are invested in the companies selected by the employee to create a fund for the purchase of annuities at retirement.

There were three College participants during the 2016-17 fiscal year. The College's contributions to the Annuity Program totaled \$13,888 and employee contributions totaled \$6,898 for the 2016-17 fiscal year.

12. Construction Commitments

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

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
East Campus Door and Window Replacement			
Architect	\$ 41,990	\$ 29,920	\$ 12,070
Construction Manager	569,360	49,719	519,641
Shooting Range East Campus			
Architect	44,200	42,932	1,268
Construction Manager	384,948	383,305	1,643
Smoke Free Signage, District Wide			
Construction Manager	40,008	-	40,008
Pharmacy-LPN Nursing Lab Remodel			
Architect	11,520	10,368	1,152
East Campus Chiller Plant & Library HVAC			
Architect	172,440	113,142	59,298
Construction Manager	1,814,901	156,528	1,658,373
West Campus Envelope Enclosure A-E			
Architect	43,310	27,148	16,162
Construction Manager	1,205,587	155,790	1,049,797
West Campus Building M Restrooms			
Architect	15,940	11,440	4,500
Construction Manager	447,614	39,332	408,282
West Campus Security Office Buildout			
Architect	12,590	10,910	1,680
Construction Manager	150,994	42,640	108,354
Joint Use Performing Arts Educational Center			
Architect	115,832	43,833	71,999
East Campus Bus Shelter/ADA Parking Review			
Architect	7,700	-	7,700
Total	\$ 5,078,934	\$ 1,117,007	\$ 3,961,927

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. Capital Credits

The College participates in a nonprofit electrical cooperative, the Withlacoochee River Electric Cooperative, Inc., established under Chapter 425, Florida Statutes. In accordance with this Statute, revenues in excess of operating expenses, unless otherwise determined by a vote of membership, are distributed by the Cooperative on a pro rata basis to its members' accounts. Capital credits are distributed only after the Cooperative meets a certain margin of profit required by the Rural Electrification Administration. At June 30, 2017, the accumulated credits to the College's account were \$911,978.

15. Functional Distribution of Operating Expenses

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 20,042,367
Academic Support	6,498,145
Student Services	9,046,186
Institutional Support	8,164,129
Operation and Maintenance of Plant	7,911,053
Scholarships and Waivers	10,311,327
Depreciation	8,311,244
Auxiliary Enterprises	5,421,669
Total Operating Expenses	\$ 75,706,120

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	\$ -	\$ 247,625	\$ 247,625	0%	\$ 20,411,244	1.2%
7/1/2013	-	503,668	503,668	0%	22,491,507	2.2%
7/1/2015	-	415,618	415,618	0%	24,892,425	1.7%

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

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

	2016 (1)	2015 (1)	2014 (1)	2013 (1)
College's proportion of the FRS net pension liability	0.059134887%	0.061694177%	0.057753781%	0.048670666%
College's proportionate share of the FRS net pension liability	\$ 14,931,605	\$ 7,968,630	\$ 3,523,830	\$ 8,378,388
College's covered payroll (2)	\$ 26,407,053	\$ 25,914,778	\$ 23,635,469	\$ 21,039,301
College's proportionate share of the FRS net pension liability as a percentage of its covered payroll	56.54%	30.75%	14.91%	39.82%
FRS Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%	88.54%

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

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

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

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required FRS contribution	\$ 1,563,940	\$ 1,744,156	\$ 1,504,156	\$ 1,265,053
FRS contributions in relation to the contractually required contribution	<u>(1,563,940)</u>	<u>(1,744,156)</u>	<u>(1,504,156)</u>	<u>(1,265,053)</u>
FRS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll (2)	\$ 26,336,408	\$ 26,407,053	\$ 25,914,778	\$ 23,635,469
FRS contributions as a percentage of covered payroll	5.94%	6.60%	5.80%	5.35%

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

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

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

	<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	0.079220723%	0.079448582%	0.073779618%	0.066630531%
College's proportionate share of the HIS net pension liability	\$ 9,232,847	\$ 8,102,506	\$ 6,898,574	\$ 5,801,064
College's covered payroll (2)	\$ 24,528,540	\$ 24,103,338	\$ 22,038,581	\$ 19,516,678
College's proportionate share of the HIS net pension liability as a percentage of its covered payroll	37.64%	33.62%	31.30%	29.72%
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	\$ 400,723	\$ 354,702	\$ 303,702	\$ 252,744
HIS contributions in relation to the contractually required HIS contribution	<u>(400,723)</u>	<u>(354,702)</u>	<u>(303,702)</u>	<u>(252,744)</u>
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll (2)	\$ 24,639,632	\$ 24,528,540	\$ 24,103,338	\$ 22,038,581
HIS contributions as a percentage of covered payroll	1.63%	1.45%	1.26%	1.15%

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

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

1. Schedule of Funding Progress – Other Postemployment Benefit Plan

The July 1, 2015, unfunded actuarial accrued liability of \$415,618 decreased by 17.5 percent from the July 1, 2013, liability of \$503,668 primarily due to:

- Demographic assumptions (rates of termination, mortality, disability, and retirement) were revised to be consistent with those used for the FRS.
- The assumed rates of participation in the Plan were adjusted to reflect current experience.
- The assumed per capita costs of healthcare were updated.
- The rates of healthcare inflation used to project the per capita healthcare costs were revised to reflect recent experience.
- The general payroll growth rate and salary scale assumptions were revised to be consistent with the rates used by the FRS.
- The actuarial cost method was changed from Projected Unit Credit to Entry Age Normal in anticipation of new disclosure requirements developed by the Governmental Accounting Standards Board.

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

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

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

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pasco-Hernando State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 16, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 16, 2018