STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2019-107
January 2019

PASCO-HERNANDO STATE COLLEGE

For the Fiscal Year Ended
June 30, 2018

Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2017-18 fiscal year, Dr. Timothy L. Beard served as President of Pasco-Hernando State College and the following individuals served as Members of the Board of Trustees:

	County
Dr. Rao Musunuru, Chair from 7-18-17	Pasco
Robin Schneider, Vice Chair [a] from 7-18-17	Hernando
Edward C. Blommel through 1-26-18, [b] Chair through 7-17-17	Pasco
Raymond "Ray" E. Gadd Jr. from 2-1-18	Pasco
Dr. David A. Garcia from 2-1-18 [c]	Hernando
Dr. Jeffrey E. Harrington	Pasco
Alvaro A. Hernandez	Pasco
Lee Maggard from 2-20-18 [b]	Pasco
John Richard Mitten from 1-26-18	Hernando
Marilyn Pearson-Adams	Hernando
Morris R. Porton through 1-25-18	Hernando
Ardian Zika through 1-31-18	Pasco

[a] Vice Chair vacant through 7-17-17.
[b] Trustee position vacant from 1-27-18, through 2-19-18.
[c] Trustee position vacant from 7-1-17, through 1-31-18.

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

The team leader was Joseph Coverdill, CPA, and the audit was supervised by Anna A. McCormick, 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, 2018. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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.

AUDITOR GENERAL
STATE OF FLORIDA

Sherrill F. Norman, CPA
Auditor General

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Tallahassee, Florida 32399-1450

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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, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matter

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2019, 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
January 22, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

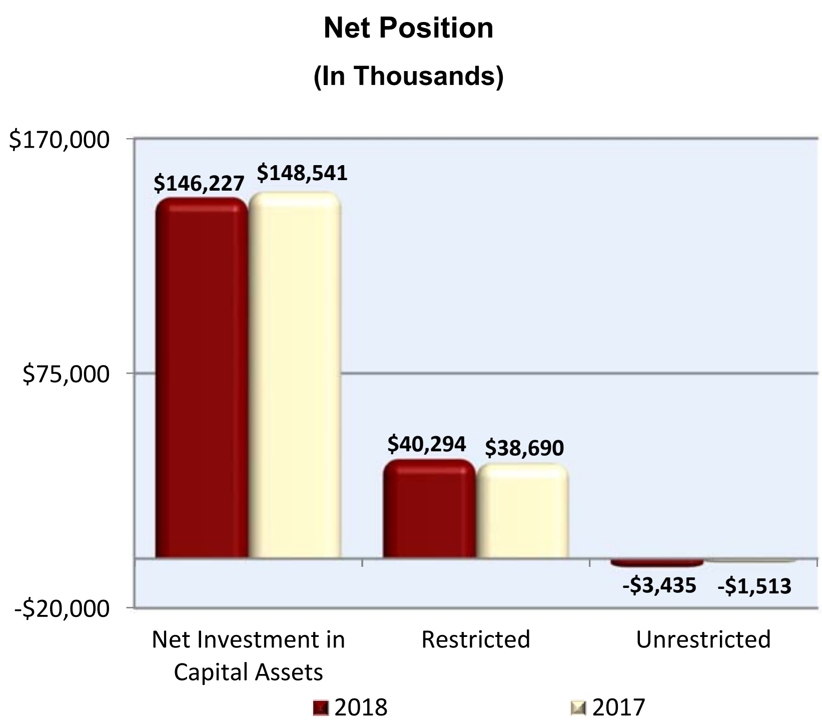
Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2018, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are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

FINANCIAL HIGHLIGHTS

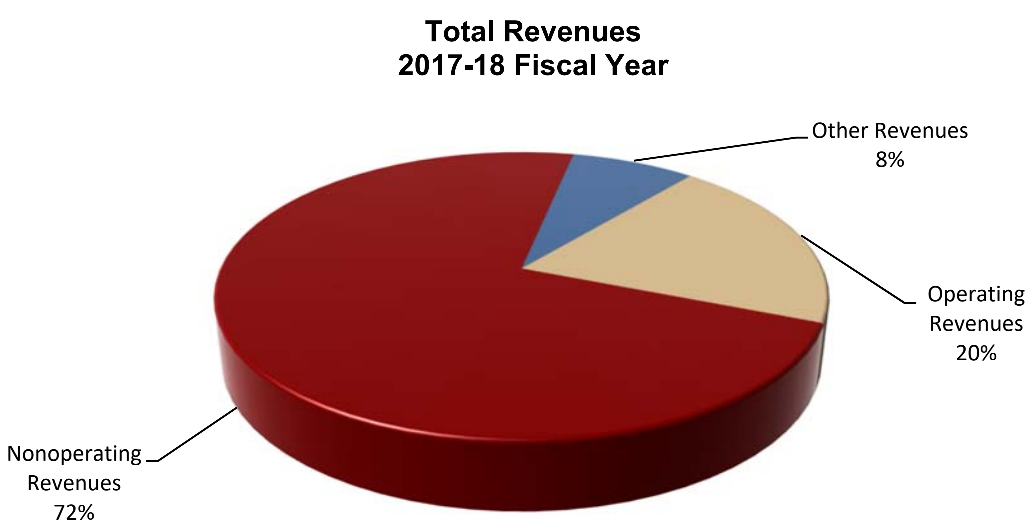
The College's assets and deferred outflows totaled $223.6 million at June 30, 2018. This balance reflects a decrease of $1.5 million, or 0.6 percent, compared to the 2016-17 fiscal year which can be attributed to decreases in net capital assets of $3.5 million, cash and cash equivalents of $0.8 million, and inventories of $0.4 million offset by an increase in due from other governmental agencies of $3.2 million. While assets and deferred outflows decreased, liabilities and deferred inflows increased by $1.2 million, or 3 percent, totaling $40.5 million at June 30, 2018, resulting from the increased liability for the Florida Retirement System (FRS) pension plan and the Health Insurance Subsidy (HIS) of $1.2 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. As a result, the College's net position decreased $2.6 million resulting in a year-end net position balance of $183.1 million.

The College's operating revenues totaled $15.9 million for the 2017-18 fiscal year, representing a 4.9 percent decrease compared to the 2016-17 fiscal year due mainly to a reduction in student tuition and fees of $0.75 million related to declining fee-paying enrollment and a decrease in auxiliary services of $0.29 million, primarily attributed to a reduction in textbook sales and cafeteria commissions. Operating expenses totaled $82.5 million for the 2017-18 fiscal year, representing an increase of 9 percent as compared to the 2016-17 fiscal year due mainly to an increase in scholarships and waivers of $3 million which was a result of additional Florida Student Assistance Grant funds provided by the State to assist students after Hurricanes Irma and Maria and an increase in materials and supplies expense of $3 million related to Collegewide non-capitalized repair and maintenance projects.

Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2018, and June 30, 2017, is shown in the following graph:



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



Overview of Financial Statements

Pursuant to GASB Statement No. 35, the College's financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, encompass the College and its component unit, 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 the Foundation including copies of their separately issued financial statements can be obtained from the Office of the Vice President, Finance and Auxiliary Services, 10230 Ridge Road, New Port Richey, Florida 34654. This MD&A focuses on the College, excluding the discretely presented component unit. For this component unit reporting under GASB standards, 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)

	2018	2017
Assets		
Current Assets	$ 42,186	$ 39,615
Capital Assets, Net	149,670	153,160
Other Noncurrent Assets	20,003	21,005
Total Assets	211,859	213,780
Deferred Outflows of Resources	11,768	11,295
Liabilities		
Current Liabilities	8,287	8,253
Noncurrent Liabilities	30,814	30,621
Total Liabilities	39,101	38,874
Deferred Inflows of Resources	1,440	483
Net Position		
Net Investment in Capital Assets	146,227	148,541
Restricted	40,294	38,690
Unrestricted	(3,435)	(1,513)
Total Net Position	$ 183,086	$ 185,718

The College's assets and deferred outflows decreased $1.5 million compared to the 2016-17 fiscal year resulting from a decrease of $3.5 million in net capital assets due to depreciation charges on mature assets exceeding the capitalization of new assets, and certain current assets, cumulatively, decreasing by $1.7 million. The decrease was due to normal business operations during a period of decreasing revenues, including decreases in cash and cash equivalents by $0.78 million, inventories by $0.38 million, prepaid expenses by $0.26 million and accounts receivables by $0.26 million. These decreases were partially offset by increases in due from other governmental agencies of $3.3 million, related to Public Education Capital Outlay (PECO) funding, and deferred outflows increasing $0.47 million related to GASB Statement No. 68 and GASB Statement No. 75 reporting.

Total liabilities and deferred inflows increased by $1.2 million from the previous fiscal year 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 2017-18 and 2016-17 fiscal years:

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

(In Thousands)

	2017-18	**2016-17**
Operating Revenues	$ 15,902	$ 16,719
Less, Operating Expenses	82,507	75,706
Operating Loss	(66,605)	(58,987)
Net Nonoperating Revenues	57,888	55,214
Loss Before Other Revenues	(8,717)	(3,773)
Other Revenues	6,264	3,709
Net Decrease In Net Position	(2,453)	(64)
Net Position, Beginning of Year	185,718	185,782
Adjustments to Beginning Net Position (1)	(179)	-
Net Position, Beginning of Year, as Restated	185,539	185,782
Net Position, End of Year	$ 183,086	$ 185,718

(1) For the 2017-18 fiscal year, the College's beginning net position was decreased related to implementation of GASB 75.

Operating Revenues

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

The following summarizes the operating revenues by source that were used to fund operating activities for the 2017-18 and 2016-17 fiscal years:

Operating Revenues
For the Fiscal Years

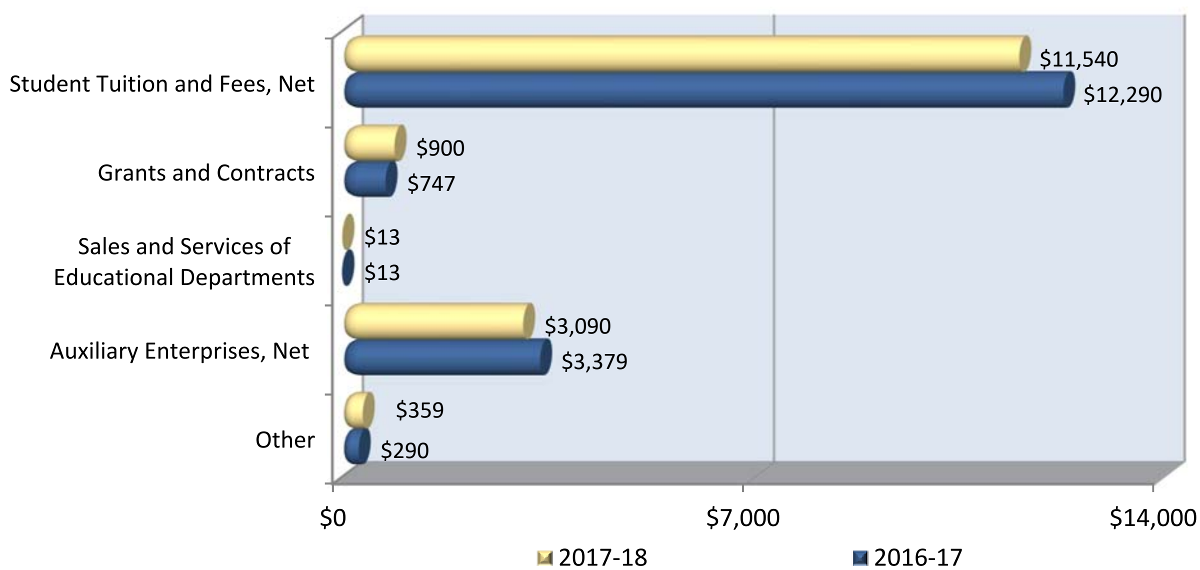
(In Thousands)

	2017-18	2016-17
Student Tuition and Fees, Net	$ 11,540	$ 12,290
Grants and Contracts	900	747
Sales and Services of Educational Departments	13	13
Auxiliary Enterprises, Net	3,090	3,379
Other	359	290
Total Operating Revenues	$ 15,902	$ 16,719

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

Operating Revenues

(In Thousands)



College operating revenue decreased from the previous fiscal year by $0.82 million due mainly to a reduction of student tuition and fees of $0.75 million.

Operating Expenses

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

The following summarizes operating expenses by natural classification for the 2017-18 and 2016-17 fiscal years:

Operating Expenses
For the Fiscal Years

(In Thousands)

	2017-18	**2016-17**
Personnel Services	$ 39,527	$ 39,713
Scholarships and Waivers	13,352	10,311
Utilities and Communications	1,735	1,719
Contractual Services	5,650	5,386
Other Services and Expenses	3,006	2,994
Materials and Supplies	10,234	7,272
Depreciation	9,003	8,311
Total Operating Expenses	$ 82,507	$ 75,706

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

Operating Expenses

(In Thousands)

College operating expenses increased by $6.8 million, or 9 percent, from $75.7 million to $82.5 million as a result of the following factors:

- An increase in scholarships and waivers of $3 million that was a result of additional Florida Student Assistance Grant funds provided to assist students after Hurricanes Irma and Maria.
- An increase in materials and supplies expense of $3 million related to college-wide non-capitalized repair and maintenance projects.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2017-18 and 2016-17 fiscal years:

Nonoperating Revenues (Expenses)
For the Fiscal Years

(In Thousands)

	2017-18	2016-17
State Noncapital Appropriations	$ 30,870	$ 32,468
Federal and State Student Financial Aid	22,914	20,029
Gifts and Grants	3,077	2,630
Investment Income	331	235
Gain on Sale of Capital Assets	822	5
Interest on Capital Asset-Related Debt	(126)	(153)
Net Nonoperating Revenues	$ 57,888	$ 55,214

Total nonoperating revenues for the College increased by $2.7 million, or 4.8 percent to $57.9 million for the 2017-18 fiscal year due primarily to an increase in Florida Student Assistance Grant revenue of $3 million and the sale of a portion of the College's Gower's Corner property for $0.8 million.

Other Revenues

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues for the 2017-18 and 2016-17 fiscal years:

Other Revenues
For the Fiscal Years

(In Thousands)

	2017-18	2016-17
State Capital Appropriations	$ 3,602	$ 967
Capital Grants, Contracts, Gifts, and Fees	2,662	2,742
Total	$ 6,264	$ 3,709

Total other revenues for the College increased by $2.6 million, or 68.9 percent to $6.3 million for the 2017-18 fiscal year based primarily on an increase of $2.6 million, or 272.5 percent, in State Capital Appropriations. The increase is attributed to the College receiving its initial PECO funding of $2.6 million for the remodeling of buildings A-E and not receiving any PECO funding in the prior 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 2017-18 and 2016-17 fiscal years:

Condensed Statement of Cash Flows
For the Fiscal Years

(In Thousands)

	2017-18	**2016-17**
Cash Provided (Used) by:		
Operating Activities	$ (55,129)	$ (48,489)
Noncapital Financing Activities	56,234	55,440
Capital and Related Financing Activities	(2,213)	(479)
Investing Activities	332	238
Net Increase (Decrease) in Cash and Cash Equivalents	(776)	6,710
Cash and Cash Equivalents, Beginning of Year	40,362	33,652
Cash and Cash Equivalents, End of Year	$ 39,586	$ 40,362

Major sources of funds came from State noncapital appropriations ($30.9 million); Federal and State student financial aid ($22.3 million), net student tuition and fees ($12 million); auxiliary services ($3.3 million); and non-capital gifts and grants ($3.1 million).

Major uses of funds were for payments to employees for salaries and benefits ($37.9 million); disbursements to providers of goods and services ($18.8 million); disbursements to students for scholarships ($13.4 million); and purchases of capital assets ($5.5 million).

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

- Net cash used by operating activities increased by $6.6 million as compared to the prior fiscal year due primarily to an increase in payments for scholarships ($3 million) and materials and supplies ($3.3 million).
- Net cash used by capital related financing activities amounted to $2.2 million for the 2017-18 fiscal year, which represents a $1.7 million increase as compared to the 2016-17 fiscal year. The increase was due primarily to payments made for stormwater modifications for the Firing Range on the East Campus, construction of the Instructional Performing Arts Center in Wesley Chapel and improvements to the parking lots on the North Campus.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the College had $238.6 million in capital assets, less accumulated depreciation of $88.9 million, for net capital assets of $149.7 million. Depreciation charges for the current fiscal year totaled $9 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30

(In Thousands)

	2018	2017
Land	$ 4,344	$ 4,429
Construction in Progress	675	2,256
Buildings	118,863	121,252
Other Structures and Improvements	24,836	24,129
Furniture, Machinery, and Equipment	846	934
Assets Under Capital Lease	106	160
Capital Assets, Net	$149,670	$153,160

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

Capital Expenses and Commitments

Major capital expenses through June 30, 2018, were incurred on the following projects:

- Construction in progress additions included storm water modifications to the Firing Range at East Campus, redesign of the North Campus parking lots, as well as preconstruction of the Instructional Performing Arts Center at Cypress Creek Middle/High School in Wesley Chapel.
- Additions to buildings included the East Campus window and door replacements, renovation of the Security Office in the I-building and the restrooms in the M-building at West Campus, in addition to the renovation of the Pharmacy-LPN Lab in D-building at the Porter Campus.
- Additions to other structure and improvements included renovation of the Chiller Plant and Firing Range at East Campus.
- Furniture, machinery, and equipment additions consisted of technology equipment, computer related equipment, educational equipment, vehicles, and grounds equipment.

The College's major construction commitments, totaling $4.1 million, at June 30, 2018, are as follows:

- East Campus Firing Range storm water modifications
- East Campus ADA parking lot improvements and skid pad with canopy
- North Campus parking lots redesign
- Instructional Performing Arts Center – Wesley Chapel

	Amount (In Thousands)
Total Committed	$ 4,638
Completed to Date	(590)
Balance Committed	$ 4,048

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

Debt Administration

As of June 30, 2018, the College had $3.4 million in outstanding bonds, loan payable, and capital lease payable, representing a decrease of $1.2 million, or 25.5 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)

	2018	2017
SBE Capital Outlay Bonds	$ 1,780	$ 1,880
Loan Payable	1,547	2,557
Capital Lease Payable	116	182
Total	$ 3,443	$ 4,619

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2017-18 fiscal year, there were no bond sales and debt repayments totaled $1.2 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 an increase in operating revenues of $0.3 million in the 2018-19 fiscal year, which is mainly attributed to a $1.1 million increase in lottery funding and a $0.8 million decrease in recurring state appropriations. The College's institutional share of performance based funding at risk decreased from $801,597 to $799,073. The College's performance funding ranking improved from Bronze to Silver for the 2017-18 fiscal year, with the College receiving both the institutional share of $799,073 as well as its state share of $799,073 to support College operations for the 2018-19 fiscal year.

The College's approved fiscal year 2018-19 budget is based on projected student fee revenues of $15.3 million calculated on an anticipated fee-paying enrollment of 6,308 full-time equivalent (FTE). The proposed budget is based on a combined trend of declining enrollment of 4.5 percent for non-Baccalaureate programs and an increased enrollment of 5 percent, or 18 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 sixth 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 supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President for Finance and Auxiliary Services, Pasco-Hernando State College, 10230 Ridge Road, New Port Richey, Florida 34654.

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

June 30, 2018

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 15,947,110	$ 2,147,632
Restricted Cash and Cash Equivalents	3,787,372	-
Investments	-	101,224
Accounts Receivable, Net	695,120	-
Notes Receivable, Net	-	35,113
Due from Other Governmental Agencies	20,243,142	37,334
Due from Component Unit	205,973	-
Inventories	753,786	-
Prepaid Expenses	531,170	9,868
Deposits	22,713	-
Total Current Assets	42,186,386	2,331,171
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	19,851,865	-
Investments	-	9,802,470
Restricted Investments	37,948	39,200,729
Prepaid Expenses	112,402	-
Notes Receivable, Net	-	1
Depreciable Capital Assets, Net	144,650,960	751
Nondepreciable Capital Assets	5,019,372	288,863
Other Assets	-	317,261
Total Noncurrent Assets	169,672,547	49,610,075
TOTAL ASSETS	211,858,933	51,941,246
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	11,735,423	-
Deferred Amounts Related to Other Postemployment Benefits	32,330	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	11,767,753	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,265,051	51,462
Accrued Interest Payable	477	-
Salary and Payroll Taxes Payable	2,461,320	-
Retainage Payable	139,703	-
Due to Other Governmental Agencies	316	-
Due to College	-	127,360
Unearned Revenue	70,184	55,543
Deposits Held for Others	2,483,272	317,260
Long-Term Liabilities - Current Portion:		
Bonds Payable	105,000	-
Loan Payable	1,027,103	-
Capital Lease Payable	70,452	-
Compensated Absences Payable	409,910	-
Net Pension Liability	222,371	-
Other Postemployment Benefits Payable	32,330	-
Total Current Liabilities	8,287,489	551,625

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

June 30, 2018

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	1,675,000	-
Loan Payable	520,365	-
Capital Lease Payable	45,875	-
Compensated Absences Payable	3,102,653	-
Net Pension Liability	25,150,546	-
Other Postemployment Benefits Payable	319,120	-
Total Noncurrent Liabilities	30,813,559	-
TOTAL LIABILITIES	39,101,048	551,625
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	1,422,584	-
Deferred Amounts Related to Other Postemployment Benefits	17,446	-
TOTAL DEFERRED INFLOWS OF RESOURCES	1,440,030	-
NET POSITION		
Net Investment in Capital Assets	146,226,536	289,614
Restricted:		
Nonexpendable:		
Endowment	-	26,234,486
Expendable:		
Grants and Loans	230,823	10,100,735
Scholarships	468,308	13,079,894
Capital Projects	39,557,040	-
Debt Service	37,948	-
Unrestricted	(3,435,047)	1,684,892
TOTAL NET POSITION	$ 183,085,608	$ 51,389,621

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, 2018

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $9,870,741	$ 11,540,249	$ -
Federal Grants and Contracts	800,975	-
State and Local Grants and Contracts	98,445	70,000
Nongovernmental Grants and Contracts	-	470,839
Sales and Services of Educational Departments	12,490	-
Auxiliary Enterprises, Net of Scholarship Allowances of $1,977,135	3,090,277	-
Other Operating Revenues	359,064	461,325
Total Operating Revenues	15,901,500	1,002,164
EXPENSES		
Operating Expenses:		
Personnel Services	39,527,357	432,094
Scholarships and Waivers	13,351,665	1,410,594
Utilities and Communications	1,734,742	-
Contractual Services	5,649,593	121,572
Other Services and Expenses	3,006,231	37,295
Materials and Supplies	10,234,085	42,545
Depreciation	9,002,949	501
Total Operating Expenses	82,506,622	2,044,601
Operating Loss	(66,605,122)	(1,042,437)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	30,869,953	-
Federal and State Student Financial Aid	22,914,050	-
Gifts and Grants	3,076,987	-
Investment Income	331,242	837,037
Net Gain on Investments	-	3,542,888
Gain on Sale of Capital Assets	821,900	-
Interest on Capital Asset-Related Debt	(125,808)	-
Net Nonoperating Revenues	57,888,324	4,379,925
Income (Loss) Before Other Revenues	(8,716,798)	3,337,488
State Capital Appropriations	3,601,485	-
Capital Grants, Contracts, Gifts, and Fees	2,661,971	-
Additions to Endowments	-	110,315
Total Other Revenues	6,263,456	110,315
Increase (Decrease) in Net Position	(2,453,342)	3,447,803
Net Position, Beginning of Year	185,718,318	47,941,818
Adjustment to Beginning Net Position	(179,368)	-
Net Position, Beginning of Year, as Restated	185,538,950	47,941,818
Net Position, End of Year	$ 183,085,608	$ 51,389,621

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, 2018

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	$ 12,001,423
Grants and Contracts	983,250
Payments to Suppliers	(18,788,995)
Payments for Utilities and Communications	(1,734,742)
Payments to Employees	(29,437,876)
Payments for Employee Benefits	(8,421,268)
Payments for Scholarships	(13,351,665)
Auxiliary Enterprises, Net	3,294,163
Sales and Services of Educational Departments	12,490
Other Receipts	314,129
Net Cash Used by Operating Activities	(55,129,091)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	30,869,953
Federal and State Student Financial Aid	22,288,224
Federal Direct Loan Program Receipts	9,228,705
Federal Direct Loan Program Disbursements	(9,228,705)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	3,076,986
Net Cash Provided by Noncapital Financing Activities	56,235,163
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	1,118,347
Capital Grants and Gifts	2,603,212
Proceeds from Sale of Capital Assets	821,900
Purchases of Capital Assets	(5,456,010)
Principal Paid on Capital Debt and Leases	(1,175,102)
Interest Paid on Capital Debt and Leases	(125,808)
Net Cash Used by Capital and Related Financing Activities	(2,213,461)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	1,574
Investment Income	330,451
Net Cash Provided by Investing Activities	332,025
Net Decrease in Cash and Cash Equivalents	(775,364)
Cash and Cash Equivalents, Beginning of Year	40,361,711
Cash and Cash Equivalents, End of Year	$ 39,586,347

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

For the Fiscal Year Ended June 30, 2018

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (66,605,122)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	9,002,949
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	260,562
Due from Other Governmental Agencies	(144,179)
Inventories	375,188
Prepaid Expenses	273,388
Other Assets	(383)
Accounts Payable	80,897
Due from Component Unit	(471)
Due to Other Governmental Agencies	(6,224)
Salaries and Payroll Taxes Payable	24,296
Unearned Revenue	4,419
Deposits Held for Others	(38,328)
Compensated Absences Payable	(49,313)
Net Pension Liability	1,208,465
Deferred Outflows of Resources Related to Other Postemployment Benefits	(32,330)
Deferred Inflows of Resources Related to Other Postemployment Benefits	17,446
Deferred Outflows of Resources Related to Pensions	(440,285)
Deferred Inflows of Resources Related to Pensions	939,934
NET CASH USED BY OPERATING ACTIVITIES	$ (55,129,091)

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 of Finance and Auxiliary 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, 2017.

Basis of Presentation. The College's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the College with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (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 accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, 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, using a ratio of total aid to 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 invested 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 SBA Florida PRIME investment pools to be cash equivalents.

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

At June 30, 2018, the College reported as cash equivalents at fair value $10,953,324 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities (Level 3 inputs, as discussed in Note 5.). Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. The State Treasury SPIA investment pool carried a credit rating of A+f by Standard & Poor's, had an effective duration of 3 years and fair value factor of 0.9872 at June 30, 2018. Participants contribute to the State Treasury SPIA investment pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balance. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2018, the College reported as cash equivalents $10,937,360 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission

Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 30 days as of June 30, 2018. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at amortized cost. Section 218.409(8)(a), Florida Statutes, provides that "the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days." As of June 30, 2018, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

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. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

2. Reporting Change

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

3. Adjustments to Beginning Net Position

The beginning net position of the College was decreased by $179,368 due to implementation of GASB Statement No. 75. The College's total OPEB liability reported at June 30, 2017, increased by $179,368 to $351,450 as of July 1, 2017, due to the transition in the valuation methods under GASB Statement No. 45 to GASB Statement No. 75, and beginning balances for deferred outflows and inflows of resources were not restated.

4. Deficit Net Position in Individual Funds

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

Fund		Net Position
Current Funds - Unrestricted	$	(12,311,345)
Auxiliary Funds		8,876,298
Total	$	(3,435,047)

5. 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 State Board of Administration (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 $37,948 at June 30, 2018, 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 these accounts. 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.

Fair Value Measurement: Generally accepted accounting principles in the United States of America establishes a hierarchy for which assets and liabilities must be grouped, based on significant levels of inputs (assumptions that market participants would use in pricing and asset or liability) as follows:

- Level 1 Input Valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume);

- Level 2 Input Valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market; and
- Level 3 Input Valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Foundation-specific data.

Investments held by the Foundation, at December 31, 2017, are reported at fair value (Level 1 and 3 inputs) as follows:

		Fair Value Measurement Using	
Investment Type	**Amount**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Unobservable Inputs (Level 3)**
United States Government Obligations	$ 882,122	$ 882,122	$ -
Federal Agency Obligations	1,198,749	1,198,749	-
Corporate Bonds and Notes	3,354,418	3,354,418	-
Asset-Backed Securities	506,012	506,012	-
Mortgage-Backed Securities	3,962,393	3,962,393	-
Equity Mutual Funds	19,353,376	19,353,376	-
Domestic Stocks	19,847,353	14,092,290	5,755,063
Total Component Unit Investments	$ 49,104,423	$ 43,349,360	$ 5,755,063

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 on the following schedule:

	Investment Maturities (In Years)				
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
United States Government Obligations	$ 882,122	$ -	$ -	$ 449,835	$ 432,287
Federal Agency Obligations	1,198,749	-	432,787	219,670	546,292
Corporate Bonds and Notes	3,354,418	-	1,088,772	1,295,591	970,055
Asset-Backed Securities	506,012	14,530	238,937	63,443	189,102
Mortgage-Backed Securities	3,962,393	-	196,103	554,775	3,211,515
Equity Mutual Funds	19,353,376	19,353,376	-	-	-
Total	$ 29,257,070	$ 19,367,906	$ 1,956,599	$ 2,583,314	$ 5,349,251

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, 2017, the Foundation's fixed income securities were rated as follows:

Investment Type	Standard & Poor's	Moody's	Percentage Total Debt Securities Investments
United States Government Obligations	AA+	Aaa	9%
Federal Agency Obligations	AA+	Aaa	12%
Corporate Bonds and Notes	AAA - BBB	Aaa - N/A	34%
Asset-Backed Securities	AAA - N/A	Aaa - N/A	5%
Mortgage-Backed Securities	AA+	Aaa	40%

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, 2017, 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.

6. Accounts Receivable

Accounts receivable represent amounts for Federal Title IV repayments, student fee deferments, various student services provided by the College, unused credit memos, and third-party nongovernmental receivables. The accounts receivable are reported net of a $474,176 allowance for doubtful accounts.

7. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of $18,562,102 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

8. 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, 2018. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2017. Accordingly, amounts reported by the College as due from component unit on the statement of net position do not agree with amounts reported by the component unit as due to the College.

9. Capital Assets

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

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 4,428,968	$ -	$ 84,893	$ 4,344,075
Construction in Progress	2,255,865	631,464	2,212,032	675,297
Total Nondepreciable Capital Assets	$ 6,684,833	$ 631,464	$ 2,296,925	$ 5,019,372
Depreciable Capital Assets:				
Buildings	$ 171,255,186	$ 1,623,901	$ -	$ 172,879,087
Other Structures and Improvements	49,307,210	5,123,834	-	54,431,044
Furniture, Machinery, and Equipment	5,855,774	430,709	273,507	6,012,976
Assets Under Capital Lease	265,863	-	-	265,863
Total Depreciable Capital Assets	226,684,033	7,178,444	273,507	233,588,970
Less, Accumulated Depreciation:				
Buildings	50,002,614	4,013,328	-	54,015,942
Other Structures and Improvements	25,178,141	4,417,084	-	29,595,225
Furniture, Machinery, and Equipment	4,921,468	519,365	273,507	5,167,326
Assets Under Capital Lease	106,345	53,172	-	159,517
Total Accumulated Depreciation	80,208,568	9,002,949	273,507	88,938,010
Total Depreciable Capital Assets, Net	$ 146,475,465	$ (1,824,505)	$ -	$ 144,650,960

10. Unearned Revenue

Unearned revenue at June 30, 2018, includes amounts collected for Pay-for Print and College Gift Cards that have not been used. As of June 30, 2018, the College reported the following amounts as unearned revenue:

Description	Amount
Pay-for-Print Collections	$ 68,548
College Gift Cards Not Used	1,636
Total Unearned Revenue	$ 70,184

11. Long-Term Liabilities

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

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$ 1,880,000	$ -	$ 100,000	$ 1,780,000	$ 105,000
Loan Payable	2,556,666	-	1,009,198	1,547,468	1,027,103
Capital Lease Payable	182,232	-	65,905	116,327	70,452
Compensated Absences Payable	3,561,876	314,101	363,414	3,512,563	409,910
Other Postemployment Benefits Payable (1)	172,082	257,336	77,968	351,450	32,330
Net Pension Liability	24,164,452	12,329,502	11,121,037	25,372,917	222,371
Total Long-Term Liabilities	$ 32,517,308	$ 12,900,939	$ 12,737,522	$ 32,680,725	$ 1,867,166

(1) The effect of the restatement of the liability for the adoption of GASB Statement No. 75, as discussed in Note 3., is accounted for in the Additions column.

Bonds Payable. The SBE issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the SBA administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2018:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2010A	$ 1,780,000	3.5 - 5.0	2030

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

Fiscal Year Ending June 30	SBE Capital Outlay Bonds Principal	Interest	Total
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	130,000	51,950	181,950
2024-2028	800,000	174,600	974,600
2029-2030	390,000	23,600	413,600
Total	$ 1,780,000	$ 516,150	$ 2,296,150

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 of 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, 2018, are as follows:

Fiscal Year Ending June 30	Amount
2019	$ 1,046,079
2020	523,040
Total Minimum Payments	1,569,119
Less, Amount Representing Interest	21,651
Present Value of Minimum Payments	$ 1,547,468

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, 2018, are as follows:

Fiscal Year Ending June 30	Amount
2019	$ 75,931
2020	47,609
Total Minimum Payments	123,540
Less, Amount Representing Interest	7,213
Present Value of Minimum Payments	$ 116,327

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2018, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled $3,512,563. The current portion of the compensated absences liability, $409,910, is the amount expected to be paid in the coming fiscal year and represents a historical percentage of leave used applied to total accrued leave liability.

Other Postemployment Benefits Payable. The College follows GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for other postemployment benefits administered by the Florida College System Risk Management Consortium (Consortium).

General Information about the OPEB Plan

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the Consortium that provides OPEB for all employees who satisfy the College's retirement eligibility provisions. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's health and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible. The OPEB Plan contribution requirements and benefit terms of the College and the OPEB Plan members are established and may be amended by action from the District Board of Trustees. No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

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

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

Inactive Employees or Beneficiaries Currently Receiving Benefits	38
DROP Members	22
Active Employees	475
Total	535

Total OPEB Liability

The College's total OPEB liability of $351,450 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

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

Inflation	2.60 percent
Salary increases	
Regular Employees	4.00 percent – 7.80 percent
Senior Management Employees	4.70 percent – 7.10 percent
Discount rate	3.56 percent
Healthcare cost trend rates	Pre-Medicare - 7.50 percent for 2017, decreasing to an ultimate rate of 5.00 percent by 2023. Medicare - 5.50 percent for 2017, decreasing to an ultimate rate of 5.00 percent by 2020.
Benefit-related costs	100 percent of projected health insurance premiums for retirees

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

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

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

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

Changes in the Total OPEB Liability

	Amount
Balance at 7/1/17, as Restated	$ 351,450
Changes for the year:	
Service Cost	66,868
Interest	11,100
Changes in Assumptions or Other Inputs	(19,942)
Benefit Payments	(58,026)
Net Changes	-
Balance at 6/30/18	$ 351,450

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

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

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB liability	$389,706	$351,450	$320,825

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

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Initial Trend	6.50%	7.50%	8.50%
Ultimate Trend	4.00%	5.00%	6.00%
Total OPEB Liability	$305,950	$351,450	$410,376

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

For the fiscal year ended June 30, 2018, the College recognized OPEB expense of $29,366. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions or other inputs	$ -	$ 17,446
Transactions subsequent to the measurement date	32,330	-
Total	$ 32,330	$ 17,446

Of the total amount reported as deferred outflows of resources related to OPEB, $32,330 resulting from benefits paid subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ (2,496)
2020	(2,496)
2021	(2,496)
2022	(2,496)
2023	(2,496)
Thereafter	(4,966)
Total	$ (17,446)

<u>Net Pension Liability</u>. As a participating employer in the FRS, the College recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2018, the College's proportionate share of the net pension liabilities totaled $25,372,917. Note 12. includes a complete discussion of defined benefit pension plans.

12. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

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

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

The College's FRS and HIS pension expense totaled $3,864,221 for the fiscal year ended June 30, 2018.

<u>FRS Pension Plan</u>

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

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

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

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

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

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

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

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2017-18 fiscal year were:

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

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

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

The College's contributions to the Plan totaled $1,779,735 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the College reported a liability of $17,107,527 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The College's proportionate share of the net pension liability was based on the College's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the College's proportionate share was 0.057836089 percent, which was a decrease of 0.001298798 percent from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the College recognized pension expense of $3,107,356. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 1,570,059	$ 94,767
Change of assumptions	5,325,370	-
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	892,841	417,675
College FRS contributions subsequent to the measurement date	1,779,735	-
Total	$ 9,568,005	$ 512,442

The deferred outflows of resources $1,779,735, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ 1,145,649
2020	2,617,327
2021	1,733,907
2022	278,557
2023	1,086,036
Thereafter	414,352
Total	$ 7,275,828

Actuarial Assumptions. The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.10 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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

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

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

Discount Rate. The discount rate used to measure the total pension liability was 7.10 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The discount rate used in the 2017 valuation was updated from 7.60 percent to 7.10 percent.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.10 percent) or 1 percentage point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
College's proportionate share of the net pension liability	$30,963,591	$17,107,527	$5,603,820

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

HIS Pension Plan

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

Benefits Provided. For the fiscal year ended June 30, 2018, eligible retirees and beneficiaries received a monthly HIS payment of $5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of $30 and a maximum HIS payment of $150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive an HIS benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2018, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The College contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The College's contributions to the HIS Plan totaled $426,321 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the College reported a net pension liability of $8,265,390 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within 1 year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, and updated procedures were used to determine liabilities as of July 1, 2017. The College's proportionate share of the net pension liability was based on the College's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the College's proportionate share was 0.077301096 percent, which was a decrease of 0.001919627 percent from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the College recognized pension expense of $756,865. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 17,210
Change of assumptions	1,161,830	714,717
Net difference between projected and actual earnings on HIS Plan investments	4,584	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	574,683	178,215
College contributions subsequent to the measurement date	426,321	-
Total	$ 2,167,418	$ 910,142

The deferred outflows of resources totaling $426,321, resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ 263,635
2020	262,768
2021	262,352
2022	159,615
2023	24,635
Thereafter	(142,050)
Total	$ 830,955

Actuarial Assumptions. The total pension liability at July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal bond rate	3.58 percent

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

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

Discount Rate. The discount rate used to measure the total pension liability was 3.58 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used in the 2017 valuation was updated from 2.85 percent to 3.58 percent.

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

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
College's proportionate share of the net pension liability	$9,431,904	$8,265,390	$7,293,748

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.

13. Retirement Plans – Defined Contribution Pension Plans

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2017-18 fiscal year were as follows:

Class	**Percent of Gross Compensation**
FRS, Regular	6.30
FRS, Senior Management Service	7.67

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2018, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the College.

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

The College's Investment Plan pension expense totaled $524,983 for the fiscal year ended June 30, 2018.

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes 5.15 percent of the participant's salary to the participant's account, 3.30 percent to cover the unfunded actuarial liability of the FRS pension plan, for a total of 8.45 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The College's contributions to the Program totaled $78,547 and employee contributions totaled $51,859 for the 2017-18 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 who 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 16.70 percent to cover the unfunded actuarial liability of the FRS pension plan for a total of 22.97 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 two College participants during the 2017-18 fiscal year. The College's contributions to the Annuity Program totaled $12,103 and employee contributions totaled $6,103 for the 2017-18 fiscal year.

14. Construction Commitments

The College's major construction commitments at June 30, 2018, were as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
North Campus Parking Lots 1&2 Redesign			
Architect	$ 126,150	$ 91,402	$ 34,748
Construction Manager	1,995,359	-	1,995,359
East Campus Firing Range Stormwater Modifications			
Architect	31,244	29,273	1,971
Construction Manager	390,748	357,876	32,872
East Campus Skid Pad & Parking Lot Improvements			
Architect	14,848	-	14,848
Construction Manager	408,700	-	408,700
Instructional Performing Arts Center Wesley Chapel			
Architect	1,576,273	102,426	1,473,847
Construction Manager	95,000	9,596	85,404
Total	$ 4,638,322	$ 590,573	$ 4,047,749

15. Risk Management Programs

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide college risk management program. The Consortium is self-sustaining through member assessments (premiums) and purchases excess insurance through commercial companies for claims in excess of specified amounts. Excess insurance from commercial companies provided coverage of up to $200 million to February 28, 2018, and up to $100 million from March 1, 2018, for property insurance. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 fiscal years.

16. 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, 2018, the accumulated credits to the College's account were $963,904.

17. Functional Distribution of Operating Expenses

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

Functional Classification	Amount
Instruction	$ 19,463,026
Academic Support	7,914,292
Student Services	8,872,382
Institutional Support	7,962,771
Operation and Maintenance of Plant	10,592,489
Scholarships and Waivers	13,351,665
Auxiliary Enterprises	5,347,048
Depreciation	9,002,949
Total Operating Expenses	$ 82,506,622

18. Current Unrestricted Funds

The Southern Association of Colleges and Schools, Commission on Colleges, which establishes the accreditation requirements for institutions of higher education, requires a disclosure of the financial position of unrestricted net position, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net position. To meet this requirement, statements of net position and revenues, expenses, and changes in net position for the current unrestricted funds are presented as follows:

Statement of Current Unrestricted Funds Net Position

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	15,947,110
Accounts Receivable, Net		683,986
Due from Other Governmental Agencies		340,988
Due from Component Units		205,973
Inventories		753,786
Prepaid Expenses		639,438
Other Assets		22,713
TOTAL ASSETS		18,593,994
DEFERRED OUTFLOWS OF RESOURCES		
Other Postemployment Benefits		32,330
Pensions		11,735,423
TOTAL DEFERRED OUTFLOWS OF RESOURCES		11,767,753
LIABILITIES		
Current Liabilities:		
Accounts Payable		642,465
Salary and Payroll Taxes Payable		2,407,185
Unearned Revenue		70,184
Other Postemployment Benefits Payable		32,330
Compensated Absences Payable		409,910
Net Pension Liability		222,371
Total Current Liabilities		3,784,445
Noncurrent Liabilities:		
Compensated Absences Payable		3,102,653
Other Postemployment Benefits Payable		319,120
Net Pension Liability		25,150,546
TOTAL LIABILITIES		32,356,764
DEFERRED INFLOWS OF RESOURCES		
Other Postemployment Benefits		17,446
Pensions		1,422,584
TOTAL DEFERRED INFLOWS OF RESOURCES		1,440,030
TOTAL NET POSITION	$	(3,435,047)

Statement of Current Unrestricted Funds Revenues, Expenses, and Changes in Net Position

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net of Scholarship Allowances of $9,870,741	$ 9,268,881
Sales and Services of Educational Departments	12,490
Auxiliary Enterprises, Net of Scholarship Allowances of $1,977,135	3,070,132
Other Operating Revenues	315,860
Total Operating Revenues	12,667,363
EXPENSES	
Operating Expenses:	
Personnel Services	38,164,024
Scholarships and Waivers	413,215
Utilities and Communications	1,710,573
Contractual Services	4,755,656
Other Services and Expenses	2,994,044
Materials and Supplies	6,480,545
Total Operating Expenses	54,518,057
Operating Loss	(41,850,694)
NONOPERATING REVENUES	
State Noncapital Appropriations	30,869,953
Gifts and Grants	1,503,312
Investment Income	97,664
Other Nonoperating Revenues	18,387
Total Nonoperating Revenues	32,489,316
Loss Before Other Revenues	(9,361,378)
Transfers from Other Funds	7,618,245
Decrease in Net Position	(1,743,133)
Net Position, Beginning of Year	(1,512,546)
Adjustments to Beginning Net Position	(179,368)
Net Position, End of Year	$ (3,435,047)

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

	2017
Total OPEB Liability	
Service cost	$ 66,868
Interest	11,100
Changes of assumptions or other inputs	(19,942)
Benefit Payments	(58,026)
Net change in total OPEB liability	-
Total OPEB Liability - beginning, as Restated	351,450
Total OPEB Liability - ending	$ 351,450
Covered-Employee Payroll	$ 23,539,654
Total OPEB Liability as a percentage of covered-employee payroll	**1.49%**

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

	2017 (1)	**2016** (1)	**2015** (1)	**2014** (1)	**2013** (1)
College's proportion of the FRS net pension liability	0.057836089%	0.059134887%	0.061694177%	0.057753781%	0.048670666%
College's proportionate share of the FRS net pension liability	$17,107,527	$14,931,605	$7,968,630	$3,523,830	$8,378,388
College's covered payroll (2)	$26,336,408	$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	64.96%	56.54%	30.75%	14.91%	39.82%
FRS Plan fiduciary net pension as a percentage of the FRS total pension liability	83.89%	84.88%	92.00%	96.09%	88.54%

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

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

Schedule of College Contributions – Florida Retirement System Pension Plan

	2018 (1)	**2017** (1)	**2016** (1)	**2015** (1)	**2014** (1)
Contractually required FRS contribution	$1,779,735	$1,563,940	$1,744,156	$1,504,156	$1,265,053
FRS contributions in relation to the contractually required contribution	(1,779,735)	(1,563,940)	(1,744,156)	(1,504,156)	(1,265,053)
FRS contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
College's covered payroll (2)	$25,681,996	$26,336,408	$26,407,053	$25,914,778	$23,635,469
FRS contributions as a percentage of covered payroll	6.93%	5.94%	6.60%	5.80%	5.35%

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

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

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

	2017 (1)	**2016** (1)	**2015** (1)	**2014** (1)	**2013** (1)
College's proportion of the HIS net pension liability	0.077301096%	0.079220723%	0.079448582%	0.073779618%	0.066630531%
College's proportionate share of the HIS net pension liability	$8,265,390	$9,232,847	$8,102,506	$6,898,574	$5,801,064
College's covered payroll (2)	$24,639,632	$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	33.55%	37.64%	33.62%	31.30%	29.72%
HIS Plan fiduciary net position as a percentage of the FRS total pension liability	1.64%	0.97%	0.50%	0.99%	1.78%

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

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

Schedule of College Contributions – Health Insurance Subsidy Pension Plan

	2018 (1)	**2017** (1)	**2016** (1)	**2015** (1)	**2014** (1)
Contractually required HIS contribution	$426,321	$400,723	$354,702	$303,702	$252,744
HIS contributions in relation to the contractually required HIS contribution	(426,321)	(400,723)	(354,702)	(303,702)	(252,744)
HIS contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
College's covered payroll (2)	$24,096,980	$24,639,632	$24,528,540	$24,103,338	$22,038,581
HIS contributions as a percentage of covered payroll	1.77%	1.63%	1.45%	1.26%	1.15%

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

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

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

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. The June 30, 2018, total OPEB liability significantly increased from the prior fiscal year as a result of a change to assumptions as discussed below:

Changes of Assumptions. The Municipal Bond Index Rate increased from 3.01 percent to 3.56 percent.

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

Changes of Assumptions. The long-term expected rate of return was decreased from 7.60 percent to 7.10 percent.

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

Changes of Assumptions. The municipal rate used to determine total pension liability increased from 2.85 percent to 3.58 percent.

Sherrill F. Norman, CPA
Auditor General

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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 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, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 22, 2019, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 communication is not suitable for any other purpose.

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
January 22, 2019