STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2019-180
March 2019

PALM BEACH 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, Ava L. Parker served as President of Palm Beach State College and the following individuals served as Members of the Board of Trustees:

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 Ida Marie Westbrook, CPA, and the audit was supervised by Diana G. Garza, CPA, CFE.

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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PALM BEACH STATE COLLEGE

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Palm Beach 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 Palm Beach 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

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Auditor General

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Palm Beach 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 Palm Beach State College and of its discretely presented component unit as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matter

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2019, on our consideration of the Palm Beach State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Palm Beach State College's internal control over financial reporting and compliance.

Respectfully submitted,

Sherrill F. Norman

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

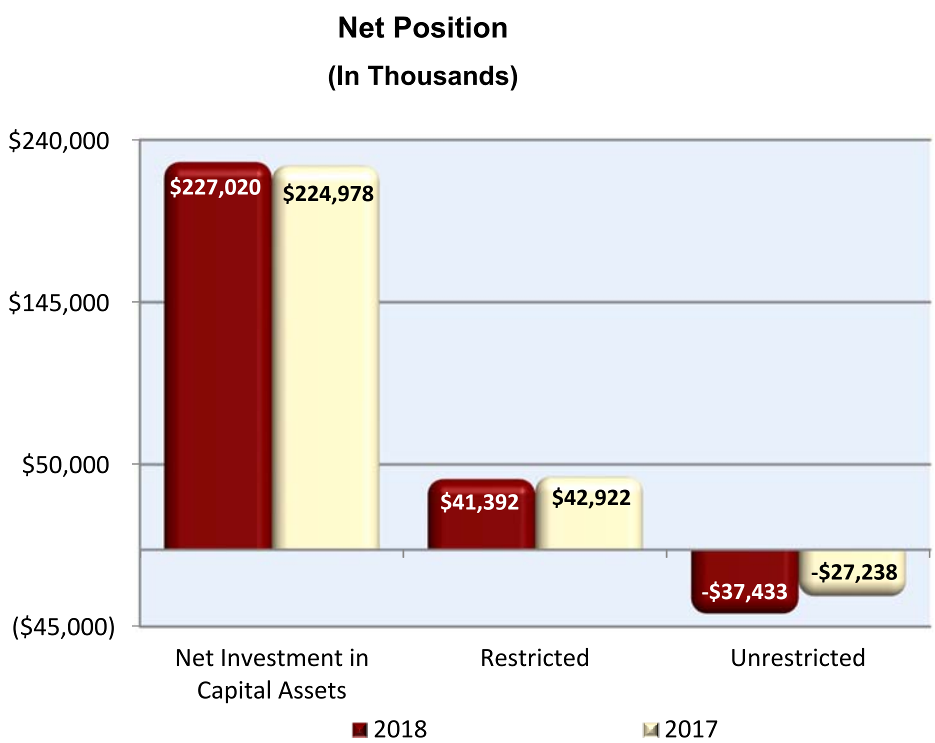
Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2018, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are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

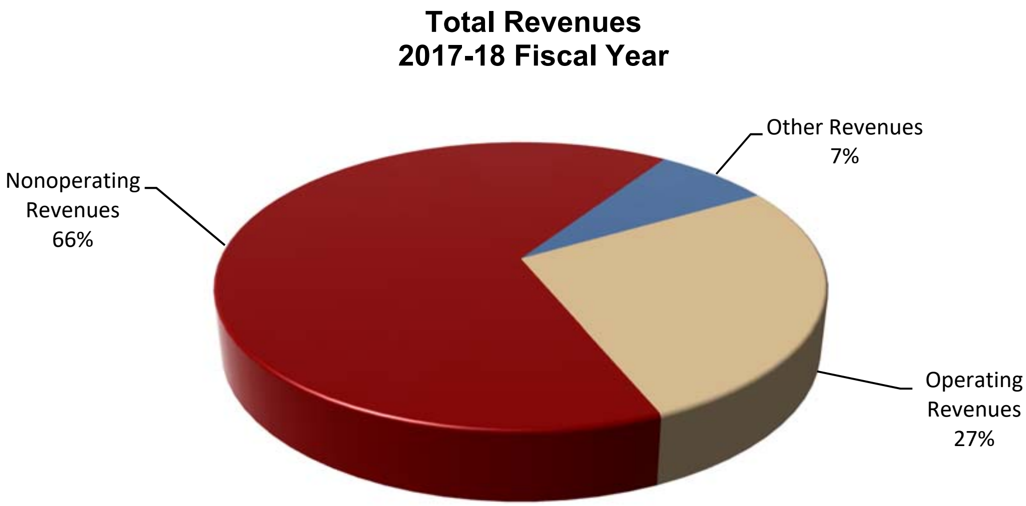
The College's assets and deferred outflows of resources totaled $325.7 million at June 30, 2018. This balance reflects a $4.6 million, or 1.4 percent, decrease as compared to the 2016-17 fiscal year, resulting from a $11.7 million decrease in cash. While assets and deferred outflows of resources decreased, liabilities and deferred inflows of resources increased by $5 million, or 5.6 percent, totaling $94.7 million at June 30, 2018, compared to $89.7 million at June 30, 2017. However, the net effect of the College's deferred outflows and inflows of $28.5 million and $3.8 million, respectively, resulted in the College's net position decrease by $9.7 million or 4 percent, resulting in a year-end balance of $231 million.

The College's operating revenues totaled $52.7 million for the 2017-18 fiscal year, representing a 5.1 percent decrease compared to the 2016-17 fiscal year, due mainly to a $3 million increase in scholarship allowance. Operating expenses totaled $204.1 million for the 2017-18 fiscal year, representing an increase of 13.2 percent as compared to the 2016-17 fiscal year due mainly to increases in personnel services of $8.8 million and scholarships and waivers of $11.5 million. Net nonoperating revenues were up $16.3 million or 14.6 percent for a total of $127.8 million in the 2017-18 fiscal year due primarily to increases in Federal and State Student Financial Aid of $8.9 million. Other revenues decreased by $3.7 million or 20.5 percent, primarily due to decreased State capital appropriation reimbursements.

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, Palm Beach State College Foundation, Inc. (Foundation). 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.

This MD&A focuses on the College, excluding the discretely presented component unit. The component unit reports under GASB standards, and its MD&A information is included in their separately issued audit reports.

The Statement of Net Position

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

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

Condensed Statement of Net Position at June 30

(In Thousands)

	2018	2017
Assets		
Current Assets	$ 21,875	$ 24,896
Capital Assets, Net	240,362	241,209
Other Noncurrent Assets	34,991	40,166
Total Assets	297,228	306,271
Deferred Outflows of Resources	28,468	24,071
Liabilities		
Current Liabilities	7,277	8,892
Noncurrent Liabilities	83,680	79,671
Total Liabilities	90,957	88,563
Deferred Inflows of Resources	3,760	1,117
Net Position		
Net Investment in Capital Assets	227,020	224,978
Restricted	41,392	42,922
Unrestricted	(37,433)	(27,238)
Total Net Position	$ 230,979	$ 240,662

The College's net position decreased $9.7 million, or 4 percent which is attributed primarily to the net changes in deferred inflows and outflows and liability related to pensions over the prior year. Further information related to pension expenses, liabilities, deferred inflows and outflows, and other relevant actuarial data are found in the notes and supplementary information of this report.

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	$ 52,695	$ 55,531
Less, Operating Expenses	204,092	180,369
Operating Loss	(151,397)	(124,838)
Net Nonoperating Revenues	127,835	111,531
Loss Before Other Revenues	(23,562)	(13,307)
Other Revenues	14,257	17,924
Net Increase (Decrease) In Net Position	(9,305)	4,617
Net Position, Beginning of Year	240,662	236,045
Adjustment to Beginning Net Position (1)	(378)	-
Net Position, Beginning of Year, as Restated	240,284	236,045
Net Position, End of Year	$ 230,979	$ 240,662

(1) For the 2017-18 fiscal year, the College's beginning net position was decreased due to the implementation of GASB Statement No. 75, which is a change in the accounting for Other Postemployment Benefits.

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

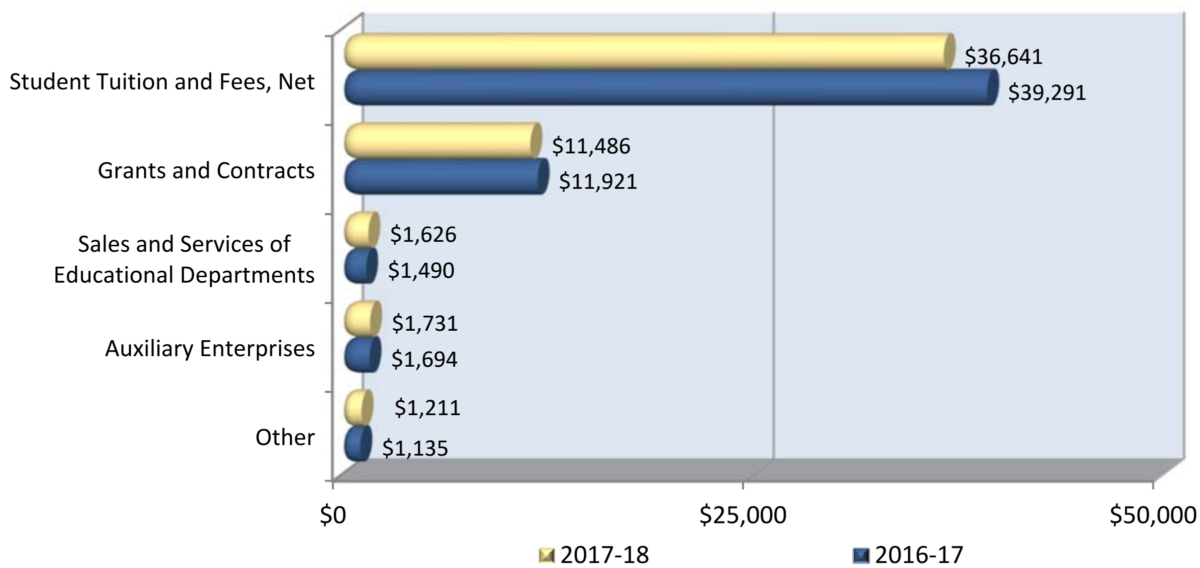
(In Thousands)

	2017-18	2016-17
Student Tuition and Fees, Net	$ 36,641	$ 39,291
Grants and Contracts	11,486	11,921
Sales and Services of Educational Departments	1,626	1,490
Auxiliary Enterprises	1,731	1,694
Other	1,211	1,135
Total Operating Revenues	$ 52,695	$ 55,531

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 changes were primarily the result of a decrease of net student tuition and fees of $2.7 million, or 6.7 percent, mainly attributed to a $3 million increase in scholarship allowance.

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

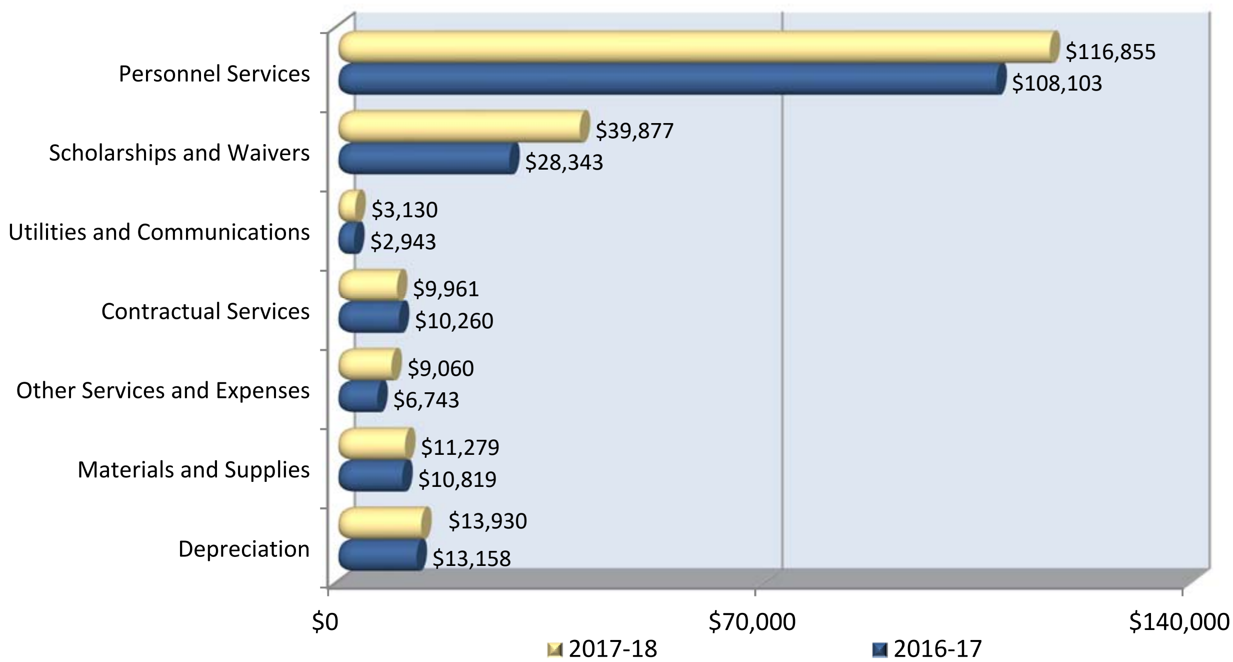
(In Thousands)

	2017-18	**2016-17**
Personnel Services	$ 116,855	$108,103
Scholarships and Waivers	39,877	28,343
Utilities and Communications	3,130	2,943
Contractual Services	9,961	10,260
Other Services and Expenses	9,060	6,743
Materials and Supplies	11,279	10,819
Depreciation	13,930	13,158
Total Operating Expenses	$ 204,092	$180,369

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

Operating Expenses

(In Thousands)



College operating expense changes were the result of the following factors:

- An increase in personnel services of $8.8 million, or 8.1 percent, primarily related to an increase in instructional salaries of $3 million; other professional salaries of $1.4 million; technical and clerical salaries of $2 million; and an increase in benefits of $1.5 million.
- An increase in scholarships and waivers of $11.5 million, or 40.7 percent resulting primarily from an increase in student enrollment and an increase in aid disbursement.
- An increase of other services and expenses of $2.3 million, or 34.4 percent, primarily related to increases in insurance expense of $0.8 million and bad debt expense of $0.5 million.

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	$ 62,742	$ 63,134
Federal and State Student Financial Aid	52,363	43,430
Gifts and Grants	12,000	5,848
Investment Income	771	657
Net Loss on Investments	(132)	(989)
Gain on Disposal of Capital Assets	595	-
Other Nonoperating Revenues	62	77
Interest on Capital Asset-Related Debt	(566)	(626)
Net Nonoperating Revenues	$ 127,835	$ 111,531

Net nonoperating revenues increased $16.3 million, or 14.6 percent, due to an increase in Federal and State Student Financial Aid of $8.9 million for Pell and a $6.2 million increase in Gifts and Grants primarily related to an increase in Florida Student Assistance Grants (FSAG) of $5.5 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	$ 7,654	$ 11,529
Capital Grants, Contracts, Gifts, and Fees	6,603	6,395
Total	$ 14,257	$ 17,924

Other revenues decreased by $3.7 million, or 20.5 percent, due primarily to a decrease of State capital appropriations of $3.9 million, or 33.6 percent, related to an increase in Public Education Capital Outlay (PECO) appropriation for the current 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	$(134,073)	$(108,841)
Noncapital Financing Activities	126,845	112,924
Capital and Related Financing Activities	(5,319)	(3,968)
Investing Activities	893	(64)
Net Increase (Decrease) in Cash and Cash Equivalents	(11,654)	51
Cash and Cash Equivalents, Beginning of Year	55,532	55,481
Cash and Cash Equivalents, End of Year	$ 43,878	$ 55,532

Major sources of funds came from State noncapital appropriations ($62.7 million), State capital appropriations ($4.1 million), Federal Direct Student Loan program receipts ($12.5 million), net student tuition and fees ($36.2 million), and grants and contracts ($11.5 million). Major uses of funds were for payments to employees and for employee benefits ($113.1 million), disbursements to students for Federal Direct Student Loans ($12.5 million), to providers of goods and services ($30 million), and purchase of capital assets ($12.7 million).

A decrease of $11.7 million in cash and cash equivalents was the result of the following factors: Payments to employees increased $6.1 million, or 7.1 percent; payments to suppliers increased $2.2 million, or 7.8 percent; and net tuition and fees decreased $2.6 million, or 6.8 percent primarily due to an increase in scholarships.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the College had $420.4 million in capital assets, less accumulated depreciation of $180 million, for net capital assets of $240.4 million. Depreciation charges for the current fiscal year totaled $13.9 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	$ 9,768	$ 9,768
Construction in Progress	34	-
Buildings	206,993	210,822
Other Structures and Improvements	20,100	17,358
Furniture, Machinery, and Equipment	3,467	3,261
Capital Assets, Net	$ 240,362	$ 241,209

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 for the Chemistry Lab at the Boca Raton Campus and the Dental/Medical Building at the Loxahatchee Groves Campus. The College's construction commitments at June 30, 2018, are as follows:

	Amount (In Thousands)
Total Committed	$ 2,780
Completed to Date	872
Balance Committed	$ 1,908

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 $13.3 million in outstanding bonds payable, representing a decrease of $2.9 million, or 17.8 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	$ 1,006	$ 1,438
Capital Improvement Revenue Bonds	12,335	13,800
Loans Payable	-	993
Total	$ 13,341	$ 16,231

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2017-18 fiscal year, the SBE issued $41.1 million of the Capital Improvement Revenue Refunding Bonds, Series 2018A. The College's portion of the bonds, $4.8 million, was used to refund $5.4 million of outstanding SBE Capital Improvement Revenue Bonds, Series 2008A. Additional information about the College's long-term debt is presented in the notes to financial statements.

Economic Factors That Will Affect the Future

The College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, a modest decrease in State funding is anticipated in the 2018-19 fiscal year. The College's current financial and capital plans indicate that the infusion of additional financial resources from active enrollment management efforts, careful budget monitoring, and continued savings of utilities costs will be necessary to maintain its present level of services.

Requests for Information

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President for Administration and Business Services, Palm Beach State College, 4200 South Congress Avenue, MS #24, Lake Worth, Florida 33461.

PALM BEACH 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	$ 9,564,868	$ 2,369,883
Restricted Investments	-	15,387,590
Accounts Receivable, Net	2,990,479	1,026,304
Due from Other Governmental Agencies	7,859,125	-
Due from Component Unit	80,082	-
Prepaid Expenses	1,296,165	48,285
Deposits	84,744	-
Total Current Assets	21,875,463	18,832,062
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	34,312,858	-
Investments	678,633	18,925,318
Depreciable Capital Assets, Net	230,560,156	-
Nondepreciable Capital Assets	9,801,340	-
Total Noncurrent Assets	275,352,987	18,925,318
TOTAL ASSETS	297,228,450	37,757,380
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	28,431,109	-
Other Postemployment Benefits	37,191	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	28,468,300	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	316,482	126,494
Salary and Payroll Taxes Payable	3,250,300	-
Unearned Revenue	-	32,960
Deposits Held for Others	1,049,095	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	942,000	-
Compensated Absences Payable	786,856	-
Other Postemployment Benefits Payable	37,191	-
Net Pension Liability	556,175	-
Other Liabilities	339,317	85,665
Total Current Liabilities	7,277,416	245,119

PALM BEACH 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	12,399,000	-
Compensated Absences Payable	8,164,283	-
Other Postemployment Benefits Payable	1,164,825	-
Net Pension Liability	61,490,037	-
Other Noncurrent Liabilities	461,459	869,707
Total Noncurrent Liabilities	83,679,604	869,707
TOTAL LIABILITIES	90,957,020	1,114,826
DEFERRED INFLOWS OF RESOURCES		
Pensions	3,691,991	-
Other Postemployment Benefits	68,291	-
TOTAL DEFERRED INFLOWS OF RESOURCES	3,760,282	-
NET POSITION		
Net Investment in Capital Assets	227,020,496	-
Restricted:		
Nonexpendable:		
Endowment	-	18,925,318
Expendable:		
Grants and Loans	1,720,801	-
Scholarships	105,659	14,582,532
Capital Projects	39,565,651	-
Unrestricted	(37,433,159)	3,134,704
TOTAL NET POSITION	$ 230,979,448	$ 36,642,554

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

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PALM BEACH 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 $31,096,634	$ 36,640,968	$ -
Federal Grants and Contracts	4,248,930	-
State and Local Grants and Contracts	942,080	-
Nongovernmental Grants and Contracts	6,295,349	1,539,510
Sales and Services of Educational Departments	1,626,458	-
Auxiliary Enterprises	1,731,202	-
Other Operating Revenues	1,210,675	981,805
Total Operating Revenues	52,695,662	2,521,315
EXPENSES		
Operating Expenses:		
Personnel Services	116,854,467	-
Scholarships and Waivers	39,877,177	1,702,389
Utilities and Communications	3,130,361	-
Contractual Services	9,961,200	-
Other Services and Expenses	9,060,458	2,361,308
Materials and Supplies	11,278,529	-
Depreciation	13,930,060	-
Total Operating Expenses	204,092,252	4,063,697
Operating Loss	(151,396,590)	(1,542,382)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	62,741,967	-
Federal and State Student Financial Aid	52,362,565	-
Gifts and Grants	12,000,366	107,920
Investment Income	771,048	4,592,716
Net Loss on Investments	(132,233)	-
Other Nonoperating Revenues	62,303	-
Gain on Disposal of Capital Assets	595,000	-
Interest on Capital Asset-Related Debt	(566,160)	-
Net Nonoperating Revenues	127,834,856	4,700,636
Income (Loss) Before Other Revenues	(23,561,734)	3,158,254
State Capital Appropriations	7,653,894	-
Capital Grants, Contracts, Gifts, and Fees	6,603,656	-
Total Other Revenues	14,257,550	-
Increase (Decrease) in Net Position	(9,304,184)	3,158,254
Net Position, Beginning of Year	240,662,076	33,484,300
Adjustment to Beginning Net Position	(378,444)	-
Net Position, Beginning of Year, as Restated	240,283,632	33,484,300
Net Position, End of Year	$ 230,979,448	$ 36,642,554

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

PALM BEACH 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	$ 36,162,966
Grants and Contracts	11,507,796
Payments to Suppliers	(30,018,391)
Payments for Utilities and Communications	(3,130,361)
Payments to Employees	(92,803,939)
Payments for Employee Benefits	(20,305,342)
Payments for Scholarships	(39,841,076)
Auxiliary Enterprises	1,701,258
Sales and Services of Educational Departments	1,626,458
Other Receipts	1,027,660
Net Cash Used by Operating Activities	(134,072,971)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	62,741,967
Federal and State Student Financial Aid	52,102,649
Federal Direct Loan Program Receipts	12,523,088
Federal Direct Loan Program Disbursements	(12,523,088)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	12,000,366
Net Cash Provided by Noncapital Financing Activities	126,844,982
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	4,125,932
Capital Grants and Gifts	6,556,627
Proceeds from Sale of Refunding Bonds	4,835,000
Proceeds from Sale of Capital Asset-Related Debt	184,446
Purchases of Capital Assets	(12,730,374)
Principal Paid on Capital Debt and Leases	(7,724,732)
Interest Paid on Capital Debt and Leases	(566,160)
Net Cash Used by Capital and Related Financing Activities	(5,319,261)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	254,138
Investment Income	638,815
Net Cash Provided by Investing Activities	892,953
Net Decrease in Cash and Cash Equivalents	(11,654,297)
Cash and Cash Equivalents, Beginning of Year	55,532,023
Cash and Cash Equivalents, End of Year	$ 43,877,726

PALM BEACH 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	$ (151,396,590)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	13,930,060
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	(459,944)
Inventories	18,219
Prepaid Expenses	601,663
Accounts Payable	(407,428)
Salaries and Payroll Taxes Payable	326,099
Unearned Revenue	(14,458)
Deposits Held for Others	(183,015)
Other Liabilities	(254,138)
Compensated Absences Payable	(313,904)
Other Postemployment Benefits Payable	349,289
Net Pension Liability	5,379,866
Deferred Outflows of Resources Related to Other Postemployment Benefits	37,191
Deferred Inflows of Resources Related to Other Postemployment Benefits	68,291
Deferred Outflows of Resources Related to Pensions	(4,397,415)
Deferred Inflows of Resources Related to Pensions	2,643,243
NET CASH USED BY OPERATING ACTIVITIES	$ (134,072,971)
SUPPLEMENTAL DISCLOSURE OF CAPITAL FINANCING ACTIVITIES	
Donation of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ 88,048

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

1. Summary of Significant Accounting Policies

Reporting Entity. The governing body of Palm Beach State College, a component unit of the State of Florida, is the District Board of Trustees. The Board of Trustees constitutes a corporation and is composed of five 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 Palm Beach County.

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 Palm Beach 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 Controller's Office, Palm Beach State College, 4200 Congress Avenue, MS #11.5, Lake Worth, Florida 33461. 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 determines its scholarship allowance by identifying those student transactions where the student's classes were paid by an applicable financial aid source. To the extent that those resources are used to pay student charges, the College records a scholarship allowance against tuition and fees revenue.

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

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

At June 30, 2018, the College reported as cash equivalents at fair value $36,366,866 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities (Level 3 inputs, as described 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 $3,084,645 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.

State Board of Administration Debt Service Accounts. The College reported cash equivalents totaling $25,800 at June 30, 2018, in the SBA Debt Service Accounts. These cash equivalents are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's cash equivalents consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk and credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Cash and Cash Equivalents – Discretely Presented Component Unit. The amount reported for the Foundation as cash and cash equivalents consists of cash, money market accounts, and highly liquid fixed income investments with original maturities of 3 months or less.

Custodial Credit Risk. Cash deposits in excess of Federal Depositors Insurance Corporation (FDIC) limits at individual financial institutions and cash held in money market accounts are uninsured. Management does not consider this risk significant. Certain cash equivalents are held in brokerage house investment accounts that are not insured by the FDIC. The total amount of cash and cash equivalents held by such institutions amounted to $2,369,883 of which $1,726,215 was uninsured at December 31, 2017.

Capital Assets. College capital assets consist of land, construction in progress, buildings, other structures and improvements, and furniture, machinery, and equipment. These assets are capitalized and recorded at cost at the date of acquisition or at acquisition value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of $5,000 for tangible personal property and $50,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

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

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

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

2. Reporting Change

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

3. Adjustment to Beginning Net Position

The beginning net position of the College was decreased by $378,444 due to implementation of GASB Statement No. 75. The College's total OPEB liability reported at June 30, 2017, increased by $391,641 to $1,156,789 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 was restated for subsequent contribution totaling $13,197.

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	$ (39,829,588)
Auxiliary Funds	2,396,429
Total	$ (37,433,159)

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.

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.

All of the College's recurring fair value measurements as of June 30, 2018, are valued using quoted market prices (Level 1 inputs).

The College's investments at June 30, 2018, are reported as follows:

Investments by fair value level	Amount	Fair Value Measurements Using: Quoted Prices In Active Markets for Identical Assets (Level 1)
Stocks and Other Equity Securities	$ 29,080	$ 29,080
Mutual Funds	206,779	206,779
Money Market Funds	442,774	442,774
Total investments by fair value level	$ 678,633	$ 678,633

Component Unit Investments.

Investments held by the College's component unit at December 31, 2017, are reported at fair value using quoted market prices in active markets for identical assets (Level 1 inputs) with the following maturities:

		Investment Maturities (In Years)				
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**11 - 15**	**More than 15**
Investment in Debt Obligations:						
U.S. Government Securities	$ 2,567,605	$ 174,870	$ 1,355,277	$ 500,287	$ 45,155	$ 492,016
Mortgage-Backed Pass-Throughs	1,483,057	79,962	383,744	76,246	233,416	709,689
Corporate Bonds	2,344,352	128,237	971,579	1,011,962	21,084	211,490
Total Investment in Debt Obligations	$ 6,395,014	$ 383,069	$ 2,710,600	$ 1,588,495	$ 299,655	$ 1,413,195
Other Investments:						
Mutual Funds	11,838,636					
Alternative Investments	772,546					
Equity Securities	15,306,712					
Total Other Investments	27,917,894					
Total Component Unit Investments	$ 34,312,908					

The Foundation has developed an investment objective of growth and income over the long term. Per the Foundation's investment policy, the spending policy is to make available on an annual basis an amount equal to approximately 5 percent of the market value of the Foundation's assets as of the beginning of each fiscal year, plus approximately 1 percent to account for administrative expenses. These distributions may be from any combination of income, earnings, or principal value of contributions that are not donor or Board restricted. The following risks apply to the Foundation's investments:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The Foundation's policy for managing its exposure for changes in interest rates is through maintaining diversification of its investments and investment maturity dates to minimize the impact of downturns in the market. As of December 31, 2017, the Foundation had investments in U.S. Government securities, mortgage-backed pass-throughs, and corporate bonds and is therefore subject to interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's policy for managing its exposure to credit risk is through maintaining its investments in securities rated "BBB" (or its equivalent) or higher at the time of purchaser by a nationally recognized statistical rating agency. As of December 31, 2017, the credit quality of the Foundation's fixed income accounts was rated "B" or higher. The policy also recommends a target asset allocation strategy of 60 percent equities (minimum 50 percent and maximum 70 percent limits) and 40 percent fixed income and cash equivalents (minimum 25 percent and maximum 50 percent limits).

Obligations of United States government agencies and instrumentalities and domestic equities do not require disclosure of credit quality. Mortgage-backed pass-throughs were not rated. Corporate bonds held by the Foundation at December 31, 2017, were rated as follows:

		Credit Quality Ratings	
Investment Type	**Fair Value**	**Moody's**	**Standard & Poor's**
Corporate Bonds	$ 1,482,912	AAA to BAA1	AA to A
	861,440	BAA2 to B2	BBB to BB
Total Corporate Bonds	$ 2,344,352		

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. 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 does not address custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Foundation's investment policy requires that invested assets be broadly diversified by asset class, investment style, number of issues, issue type, and other factors consistent with the investment objectives to reduce the risk of wide swings in market value from year-to-year or incurring large losses that may result from concentrated positions. Subject to the usual standards of fiduciary prudence, and to minimize the risk of large losses, each investment manager is to maintain adequate diversification in their portfolio.

6. Accounts Receivable

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, unused credit memos, and contract and grant reimbursements due from third parties. The accounts receivable are reported net of a $714,761 allowance for doubtful accounts.

7. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of $5,252,793 of Public Education Capital Outlay allocations due from the State for construction of College facilities, $561,550 due from Federal grants and scholarships, and $891,321 due from the Florida Prepaid College Program.

8. Due From and To Component Unit

The amount of $80,082 due from component unit consists of amounts owed to the College by the Foundation for scholarships and student aid. The College's financial statements are reported for the fiscal year ended June 30, 2018. The College's component unit financial statements are reported for the fiscal year ended December 31, 2017. Although the College reported an amount due from the component unit on the statement of net position, no amount is 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	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 9,767,813	$ -	$ -	$ -	$ 9,767,813
Construction in Progress	-	-	10,433,800	10,400,273	33,527
Total Nondepreciable Capital Assets	$ 9,767,813	$ -	$ 10,433,800	$ 10,400,273	$ 9,801,340
Depreciable Capital Assets:					
Buildings	$ 324,381,468	$ -	$ 4,058,905	$ -	$ 328,440,373
Other Structures and Improvements	53,136,438	-	6,811,233	-	59,947,671
Furniture, Machinery, and Equipment	20,761,621	-	2,059,399	628,525	22,192,495
Total Depreciable Capital Assets	398,279,527	-	12,929,537	628,525	410,580,539
Less, Accumulated Depreciation:					
Buildings	113,559,626	(7,717)	7,895,850	-	121,447,759
Other Structures and Improvements	35,778,257	(119,769)	4,189,048	-	39,847,536
Furniture, Machinery, and Equipment	17,500,639	-	1,845,162	620,713	18,725,088
Total Accumulated Depreciation	166,838,522	(127,486)	13,930,060	620,713	180,020,383
Total Depreciable Capital Assets, Net	$ 231,441,005	$ 127,486	$ (1,000,523)	$ 7,812	$ 230,560,156

(1) Adjustments were made to reduce accumulated depreciation for buildings and other structures and improvements due to over depreciation of assets in the 2016-17 fiscal year.

10. Long-Term Liabilities

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

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$ 15,238,000	$ 4,835,000	$ 6,732,000	$ 13,341,000	$ 942,000
Loans Payable	992,732	-	992,732	-	-
Compensated Absences Payable	9,265,043	681,317	995,221	8,951,139	786,856
Other Postemployment Benefits Payable (1)	1,156,789	82,418	37,191	1,202,016	37,191
Net Pension Liability	56,703,536	32,217,448	26,874,772	62,046,212	556,175
Other Noncurrent Liabilities	932,771	179,551	311,546	800,776	339,317
Total Long-Term Liabilities	$ 84,288,871	$ 37,995,734	$ 35,943,462	$ 86,341,143	$ 2,661,539

(1) OPEB Payable beginning balance adjusted for adoption of GASB Statement No. 75, as described in Notes 2. and 3.

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

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

- Capital Improvement Revenue Bonds, Series 2012A and 2018A. These bonds are authorized by Article VII, Section 11(d) of the Florida Constitution; Sections 215.57 through 215.83 and 1009.23, Florida Statutes; and other applicable provisions of law. Principal and interest on these bonds are secured by and payable solely from a first lien pledge of the capital improvement fees collected pursuant to Section 1009.23(11), Florida Statutes, by the Series 2012A participating colleges on a parity with any additional bonds issued subsequent to the issuance of the Series 2012A bonds. The Series 2012A bonds constitute the fourth series of bonds to be issued pursuant to a Master Authorizing Resolution. The Governing Board authorized the sale of the Series 2012A bonds by the Fourth Supplemental Resolution adopted on October 1, 2011, which also amended the Master Authorizing Resolution. Upon the issuance of additional bonds, all bonds will share a parity first lien on the pledged revenues of all colleges participating in any series of bonds then outstanding. The Series 2012A and 2018A bonds will share the lien of such additional bonds on the Series 2012A and 2018A pledged revenues and on the revenues pledged by the colleges participating in such additional bonds. The bonds were issued for new construction and renovation and remodeling of educational facilities.

The College had the following bonds payable at June 30, 2018:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2014A, Refunding	$ 929,000	3.0 - 5.0	2025
Series 2014B, Refunding	77,000	2.0 - 5.0	2020
Florida Department of Education			
Capital Improvement Revenue Bonds:			
Series 2012A	7,500,000	2.0 - 3.625	2032
Series 2018A	4,835,000	4.0 - 5.0	2028
Total	$ 13,341,000		

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 and Capital Improvement Revenue Bonds Principal	Interest	Total
2019	$ 942,000	$ 567,454	$ 1,509,454
2020	1,019,000	484,870	1,503,870
2021	1,016,000	447,603	1,463,603
2022	1,057,000	408,428	1,465,428
2023	1,099,000	365,078	1,464,078
2024-2028	5,723,000	1,137,743	6,860,743
2029-2032	2,485,000	223,737	2,708,737
Total	$ 13,341,000	$ 3,634,913	$ 16,975,913

On April 12, 2018, the Division of Bond Finance issued the Florida College System Capital Improvement Revenue Refunding Bonds, Series 2018A. The College's portion of the bonds, $4,835,000, was used to refund $5,430,000 of outstanding Capital Improvement Revenue Bonds, Series 2008A. The proceeds of the bond issue were deposited in a trust fund with the SBA to provide for all future debt service payments on the bonds. The assets with the SBA and the liability for the refunded bonds are not included on the College's statement of net position. As a result of the refunding, the College had a debt service savings of $568,734 and obtained an economic gain of $494,130.

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 $8,951,139. The current portion of the compensated absences liability, $786,856, is the amount expected to be paid in the coming fiscal year and represents a historical percentage of leave used applied to total accrued leave liability.

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

General Information about the OPEB Plan

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

Benefits Provided. The OPEB Plan provides healthcare benefits consisting of medical and prescription drug coverage for retirees and their dependents. The OPEB Plan only provides an implicit subsidy as described above.

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

Inactive Employees or Beneficiaries Currently Receiving Benefits	48
Inactive Employees Entitled to But Not Yet Receiving Benefits	68
Active Employees	1,089
Total	1,205

Total OPEB Liability

The College's total OPEB liability of $1,202,016 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	2.6 percent
Salary increases	4.0 to 7.8 percent, including inflation
Discount rate	3.56 percent
Healthcare cost trend rates	
Pre-Medicare	7.5 percent for 2017, decreasing to an ultimate rate of 5.0 percent by 2023.
Medicare	5.5 percent for 2017, decreasing to an ultimate rate of 5.0 percent by 2020.

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

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

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

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

Changes in the Total OPEB Liability

	Amount
Balance at 6/30/17, as Restated	$ 1,169,986
Changes for the year:	
Service Cost	86,514
Interest	35,019
Changes in Assumptions or Other Inputs	(76,306)
Benefit Payments	(13,197)
Net Changes	32,030
Balance at 6/30/18	$ 1,202,016

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

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

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB liability	$1,348,253	$1,202,016	$1,084,359

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

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	$1,019,169	$1,202,016	$1,441,544

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 $113,518. 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	$ -	$ 68,291
Transactions subsequent to the measurement date	37,191	-
Total	$ 37,191	$ 68,291

Of the total amount reported as deferred outflows of resources related to OPEB, $37,191 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	$ (8,015)
2020	(8,015)
2021	(8,015)
2022	(8,015)
2023	(8,015)
Thereafter	(28,216)
Total	$ (68,291)

Net Pension Liability. As a participating employer in the FRS, the College recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2018, the College's proportionate share of the net pension liabilities totaled $62,046,212. Note 11. includes a complete discussion of defined benefit pension plans.

11. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

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

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

The College's FRS and HIS pension expense totaled $9,005,896 for the fiscal year ended June 30, 2018.

FRS Pension Plan

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

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

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

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

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

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

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

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

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

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

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

The College's contributions to the Plan totaled $4,395,687 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 $41,373,623 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

0.139873431 percent, which was a decrease of 0.002961109 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the College recognized pension expense of $7,291,765. 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	$ 3,797,102	$ 229,187
Change of assumptions	13,904,458	-
Net difference between projected and actual earnings on FRS Plan investments	-	1,025,342
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	1,520,203	606,837
College FRS contributions subsequent to the measurement date	4,395,687	-
Total	$ 23,617,450	$ 1,861,366

The deferred outflows of resources totaling $4,395,687, 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	$ 2,547,485
2020	6,106,658
2021	4,104,791
2022	766,666
2023	2,773,605
Thereafter	1,061,192
Total	$ 17,360,397

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	$74,883,758	$41,373,623	$13,552,533

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

Payables to the Pension Plan. At June 30, 2018, the College reported a payable of $539,913 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2018.

HIS Pension Plan

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

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

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

The College's contributions to the HIS Plan totaled $1,196,155 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 $20,672,589 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within 1 year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, and update procedures were used to determine liabilities as of July 1, 2017. The College's proportionate share of the net pension liability was based on the College's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the College's proportionate share was 0.193337985 percent, which was an increase of 0.003429333 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the College recognized pension expense of $1,714,131. 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	$ -	$ 43,044
Change of assumptions	2,905,855	1,787,581
Net difference between projected and actual earnings on HIS Plan investments	11,464	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	700,185	-
College contributions subsequent to the measurement date	1,196,155	-
Total	$ 4,813,659	$ 1,830,625

The deferred outflows of resources totaling $1,196,155, 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	$ 480,513
2020	478,344
2021	477,302
2022	368,592
2023	192,464
Thereafter	(210,336)
Total	$ 1,786,879

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	$23,590,162	$20,672,589	$18,242,412

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

Payables to the Pension Plan. At June 30, 2018, the College reported a payable of $73,595 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2018.

12. Retirement Plans – Defined Contribution Pension Plans

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

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

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

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

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

The College's Investment Plan pension expense totaled $1,133,747 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 5.14 percent of the participant's salary to the participant's account, 3.3 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover the administrative costs, 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 $244,211 and employee contributions totaled $139,808 for the 2017-18 fiscal year.

Senior Management Service Local Annuity Program. Section 121.055(1)(b)2., Florida Statutes, and Florida Retirement System Rule 60S-1.0057, Florida Administrative Code, provide that local agency employees eligible for the FRS, Senior Management Service Class, may elect to withdraw from the FRS altogether and participate in a local annuity program. Pursuant thereto, the College established the Senior Management Service Class Local Annuity Program (Local Annuity Program). Employees in eligible positions are allowed to make an irrevocable election to participate in the Local Annuity Program, rather than the FRS.

The Local 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 employee. The College contributes 9 percent of the employee's salary to the Local Annuity Program. Employees may make contributions toward the Local Annuity Program by way of salary reduction or by deduction of a percentage of the employee's gross compensation not to exceed the percentage contributed by the employer.

The College's contributions to the Local Annuity Program totaled $70,684 and employee contributions totaled $23,639 for the 2017-18 fiscal year.

13. Construction Commitments

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

Project Description	Total Commitment	Completed to Date	Balance Committed
Loxahatchee Groves Dental/Medical Building			
Architect-Educational Programming	$ 1,584,190	$ 12,000	$ 1,572,190
Boca Raton Campus			
Chemistry Lab-Contractor	1,195,467	859,506	335,961
Total	$ 2,779,657	$ 871,506	$ 1,908,151

The projects listed above are being completed in phases. As of June 30, 2018, $837,979 of the $871,506 indicated as completed to date had been capitalized in building values at year end.

14. Risk Management Programs

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

15. Litigation

The College is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the College's legal counsel and management, should not materially affect the College's financial position.

16. 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	$ 66,662,141
Public Services	359,314
Academic Support	20,971,922
Student Services	26,055,748
Institutional Support	15,995,858
Operation and Maintenance of Plant	18,931,887
Scholarships and Waivers	40,278,269
Depreciation	13,930,060
Auxiliary Enterprises	907,053
Total Operating Expenses	$ 204,092,252

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

	2017
Total OPEB Liability	
Service cost	$ 86,514
Interest	35,019
Changes of assumptions or other inputs	(76,306)
Benefit Payments	(13,197)
Net change in total OPEB liability	32,030
Total OPEB Liability - beginning, as Restated	1,169,986
Total OPEB Liability - ending	$ 1,202,016
Covered-Employee Payroll	$ 58,826,331
Total OPEB Liability as a percentage of covered-employee payroll	2.04%

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	0.139873431%	0.136912322%	0.143178626%	0.140794298%	0.125866346%
College's proportionate share of the FRS net pension liability	$ 41,373,623	$ 34,570,469	$ 18,493,440	$ 8,590,523	$ 21,667,200
College's covered payroll (2)	$ 69,739,633	$ 64,274,429	$ 63,227,836	$ 61,349,204	$ 59,530,501
College's proportionate share of the FRS net pension liability as a percentage of its covered payroll	59.33%	53.79%	29.25%	14.00%	36.40%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	83.89%	84.88%	92.00%	96.09%	88.54%

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

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

Schedule of College Contributions – Florida Retirement System Pension Plan

	2018 (1)	**2017** (1)	**2016** (1)	**2015** (1)	**2014** (1)
Contractually required FRS contribution	$ 4,395,687	$ 3,641,250	$ 3,338,825	$ 3,490,816	$ 3,083,993
FRS contributions in relation to the contractually required contribution	(4,395,687)	(3,641,250)	(3,338,825)	(3,490,816)	(3,083,993)
FRS contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
College's covered payroll (2)	$ 78,245,049	$ 69,739,633	$ 64,274,429	$ 63,227,836	$ 61,349,204
FRS contributions as a percentage of covered payroll	5.62%	5.22%	5.19%	5.52%	5.03%

(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	0.193337985%	0.189908652%	0.186691279%	0.184935417%	0.182379553%
College's proportionate share of the HIS net pension liability	$ 20,672,589	$ 22,133,067	$ 19,039,574	$ 17,291,913	$ 15,878,538
College's covered payroll (2)	$ 63,717,054	$ 58,869,058	$ 56,874,553	$ 55,196,402	$ 48,665,148
College's proportionate share of the HIS net pension liability as a percentage of its covered payroll	32.44%	37.60%	33.48%	31.33%	32.63%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	1.64%	0.97%	0.50%	0.99%	1.78%

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

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

Schedule of College Contributions – Health Insurance Subsidy Pension Plan

	2018 (1)	**2017** (1)	**2016** (1)	**2015** (1)	**2014** (1)
Contractually required HIS contribution	$ 1,196,155	$ 1,023,200	$ 973,403	$ 713,650	$ 633,527
HIS contributions in relation to the contractually required HIS contribution	(1,196,155)	(1,023,200)	(973,403)	(713,650)	(633,527)
HIS contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
College's covered payroll (2)	$ 72,405,681	$ 63,717,054	$ 58,869,058	$ 56,874,553	$ 55,196,402
HIS contributions as a percentage of covered payroll	1.65%	1.61%	1.65%	1.25%	1.15%

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

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

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

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

Changes of Assumptions. The municipal bond rate increased from 3.01 percent to 3.56 percent due to a change in the municipal bond rate. The change in the liability resulting from the change in the discount rate is to be recognized in OPEB expense beginning in the current measurement period over a period equal to 9.52 years using the same approach applied to Plan experience.

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

Changes of Assumptions. The long-term expected rate of return was decreased from 7.60 percent to 7.10 percent, and the active member mortality assumption was updated.

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

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

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House of Representatives, and the
Legislative Auditing Committee

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Palm Beach State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 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
March 22, 2019