

# COLLEGE OF CENTRAL FLORIDA

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## Financial Audit

For the Fiscal Year Ended  
June 30, 2010



## BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2009-10 fiscal year are listed below:

|  | <u>County</u> |
|--|---------------|
| Betty Strifler, Chair                  | Citrus        |
| Cory B. Pool, Vice Chair               | Marion        |
| Sandra L. Balfour                      | Citrus        |
| Robert E. Durrance                     | Levy          |
| Ronald L. Ewers                        | Marion        |
| Bernard L. Little, Jr., to 5-25-10 (1) | Marion        |
| Carol P. Sullivan                      | Levy          |

Dr. Charles R. Dassance, President

Note: (1) Board member retired, position remained vacant at June 30, 2010.

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 audit team leader was Sheila B. Ginsberg, CPA, and the audit was supervised by Philip B. Ciano, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at [jimstultz@aud.state.fl.us](mailto:jimstultz@aud.state.fl.us) or by telephone at (850) 922-2263.

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COLLEGE OF CENTRAL FLORIDA  
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## EXECUTIVE SUMMARY

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### Summary of Report on Financial Statements

Our audit disclosed that the College's basic financial statements 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 the College of Central Florida and its officers with administrative and stewardship responsibilities for College operations had:

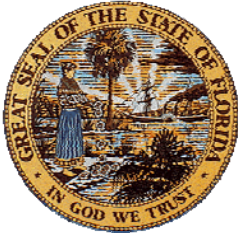
- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied 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, 2010. 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. The results of our operational audit of the College are included in our report No. 2011-023.

### Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent College records in connection with the application of procedures required by 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.



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534  
FAX: 850-488-6975

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

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the College of Central Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2010, which collectively comprise the College's basic financial statements as shown on pages 12 through 37. These financial statements are the responsibility of College management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The Appleton Cultural Center, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College of Central Florida and of its aggregate discretely presented component units as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the College of Central Florida'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 THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 11 and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on pages 38 and 39 be presented to supplement the basic financial statements. Such information, although not a required 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.

Respectfully submitted,



David W. Martin, CPA  
March 14, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The 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, 2010, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statement Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management.

### COLLEGE NAME CHANGE

The College's Board of Trustees approved the name change from Central Florida Community College to College of Central Florida on May 25, 2010, pursuant to Section 1001.60(2)(b), Florida Statutes.

### FINANCIAL HIGHLIGHTS

The College's assets totaled \$97.4 million at June 30, 2010. This balance reflects a \$1.7 million, or 1.7 percent, decrease from the 2008-09 fiscal year. Liabilities also decreased, but by a lesser amount, \$1.4 million, or 14.2 percent, totaling \$8.4 million at June 30, 2010, compared to \$9.8 million at June 30, 2009. As a result, the College's net assets decreased by \$0.3 million, reaching a year-end balance of \$89 million.

The College's operating revenues totaled \$15.6 million for the 2009-10 fiscal year, an increase of \$1 million, or 7.1 percent, over the 2008-09 fiscal year due mainly to additional tuition and fees attributable to an increase in student enrollment. Operating expenses totaled \$59.9 million for the 2009-10 fiscal year, an increase of \$8.4 million, or 16.4 percent, over the 2008-09 fiscal year due mainly to expenses related to the increase in student enrollment including those of \$3.4 million for scholarships and waivers, \$2.1 million in personnel services, and \$1.4 million in materials and supplies. Net nonoperating revenues totaled \$39 million, an increase of \$6.7 million, or 20.9 percent, due mainly to an \$8.1 million increase in grants and scholarships, primarily for student aid, and a decrease of \$1.5 million in State appropriations.

### 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 assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. These financial statements, and notes thereto, provide information on the College as a whole, present a long-term view of the College's finances, and include activities for the following entities:

- College of Central Florida (Primary Institution) – Most of the programs and services generally associated with a college fall into this category, including instruction, public service, and support services.
- College of Central Florida's Discretely Presented Component Units – Includes two separate legal entities. Although legally separate, these component units are important because the College is financially accountable for them as the College reports its financial activities to the State of Florida. These two organizations are:
  - College of Central Florida Foundation, Inc. (Foundation), formerly known as Central Florida Community College Foundation, Inc.
  - The Appleton Cultural Center, Inc. (Center)

**THE STATEMENT OF NET ASSETS AND THE STATEMENT  
OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

One of the most important questions asked about the College's finances is, "Is the College of Central Florida as a whole, better or worse off as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses, and changes in net assets report information on the College as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as the College of Central Florida's operating results.

These two statements report the College of Central Florida's net assets and changes in them. You can think of the College's net assets, the difference between assets and liabilities, as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are one indication of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as certain trends, student retention, condition of the buildings, and the safety of the campus, to assess the College's overall financial health.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

A condensed statement of assets, liabilities, and net assets of the College and its component units for the respective fiscal years ended is shown in the following table:

|  | College          |                  | Component Units  |                  |
|--|------------------|------------------|------------------|------------------|
|  | 6-30-10          | 6-30-09          | 12-31-09         | 12-31-08         |
| <b>Assets</b>                                      |                  |                  |                  |                  |
| Current Assets                                     | \$ 11,199        | \$ 13,277        | \$ 8,592         | \$ 12,797        |
| Capital Assets, Net                                | 80,714           | 80,349           | 21,681           | 21,832           |
| Other Noncurrent Assets                            | 5,481            | 5,486            | 42,197           | 29,167           |
| <b>Total Assets</b>                                | <u>97,394</u>    | <u>99,112</u>    | <u>72,470</u>    | <u>63,796</u>    |
| <b>Liabilities</b>                                 |                  |                  |                  |                  |
| Current Liabilities                                | 3,077            | 4,326            | 961              | 1,189            |
| Noncurrent Liabilities                             | 5,367            | 5,519            | 3,719            | 3,820            |
| <b>Total Liabilities</b>                           | <u>8,444</u>     | <u>9,845</u>     | <u>4,680</u>     | <u>5,009</u>     |
| <b>Net Assets</b>                                  |                  |                  |                  |                  |
| Invested in Capital Assets,<br>Net of Related Debt | 77,988           | 77,235           | 18,806           | 18,630           |
| Restricted   | 5,084            | 6,621            | 42,636           | 35,468           |
| Unrestricted                                       | 5,878            | 5,411            | 6,348            | 4,689            |
| <b>Total Net Assets</b>                            | <u>\$ 88,950</u> | <u>\$ 89,267</u> | <u>\$ 67,790</u> | <u>\$ 58,787</u> |
| <b>Change in Net Assets</b>                        | <u>\$ (317)</u>  | -0.4%            | <u>\$ 9,003</u>  | 15.3%            |

The College's decrease in net assets was primarily from a decrease in cash and cash equivalents of \$2.4 million, a decrease in due from other governmental agencies of \$0.6 million, and a decrease in accounts receivable of \$1 million.

Liabilities also decreased, but by a lesser amount, primarily due to a reduction in accounts payable and retainage payable of \$1.1 million.

The increase in the net assets for the component units is due primarily to investment earnings of \$6.8 million and a \$2.5 million contribution to the Promise for the Future campaign. Investments are reported at fair value and were impacted by the market conditions during the 2009-10 fiscal year. This increase in the fair value of the Foundation's investments was also a primary cause of the increase in the component units' other nonoperating revenues.

Revenues and expenses of the College and its component units for the respective fiscal years ended are shown in the following table:

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets  
For the Fiscal Years Ended  
(In Thousands)**

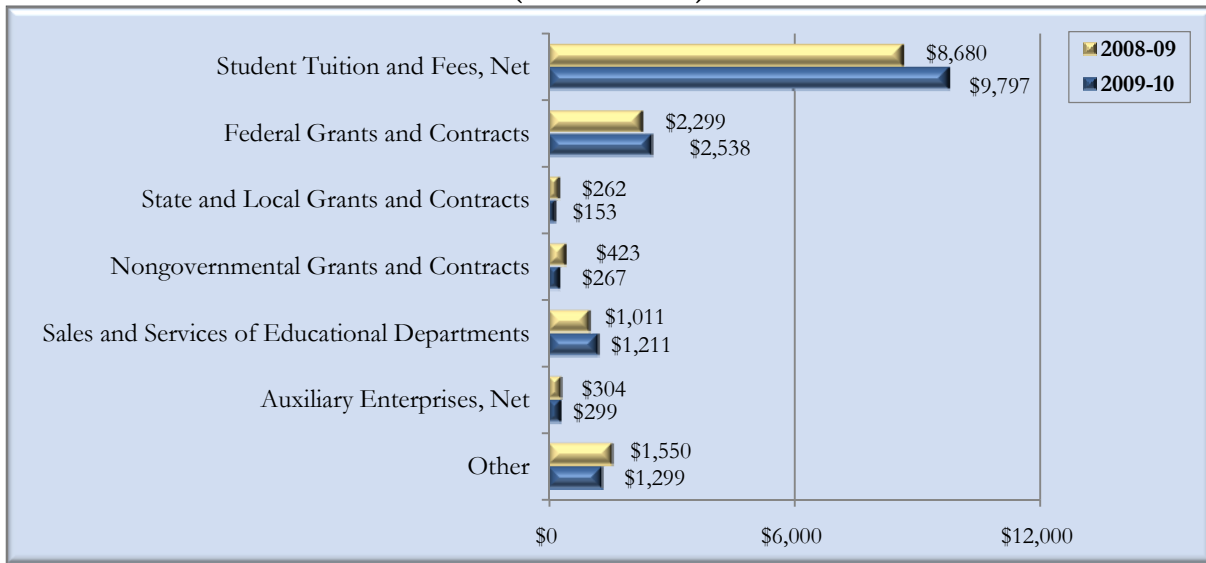
|  | College          |                  | Component Units  |                  |
|--|------------------|------------------|------------------|------------------|
|  | 6-30-10          | 6-30-09          | 12-31-09         | 12-31-08         |
| <b>Operating Revenues</b>  |                  |                  |                  |                  |
| Student Tuition and Fees, Net of Scholarship Allowances                | \$ 9,797         | \$ 8,680         | \$               | \$               |
| Federal Grants and Contracts   | 2,538            | 2,299            |                  |                  |
| State and Local Grants and Contracts                                   | 153              | 262              |                  |                  |
| Nongovernmental Grants and Contracts                                   | 267              | 423              | 3,310            | 2,317            |
| Sales and Services of Educational Departments                          | 1,211            | 1,011            |                  |                  |
| Auxiliary Enterprises  | 299              | 304              |                  |                  |
| Other Operating Revenues   | 1,299            | 1,550            | 1,356            | 1,430            |
| <b>Total Operating Revenues</b>  | <b>15,564</b>    | <b>14,529</b>    | <b>4,666</b>     | <b>3,747</b>     |
| Less, Operating Expenses   | 59,866           | 51,420           | 3,261            | 3,835            |
| <b>Operating Income (Loss)</b>   | <b>(44,302)</b>  | <b>(36,891)</b>  | <b>1,405</b>     | <b>(88)</b>      |
| <b>Nonoperating Revenues (Expenses)</b>                                |                  |                  |                  |                  |
| State Appropriations   | 18,705           | 20,218           |                  |                  |
| Other Nonoperating Revenues (Expenses)                                 | 20,482           | 12,232           | 7,193            | (11,738)         |
| Interest on Capital Asset-Related Debt                                 | (175)            | (171)            | (141)            | (150)            |
| <b>Net Nonoperating Revenues (Expenses)</b>                            | <b>39,012</b>    | <b>32,279</b>    | <b>7,052</b>     | <b>(11,888)</b>  |
| <b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b> |                  |                  |                  |                  |
| Capital Appropriations   | 3,425            | 9,048            | 8,457            | (11,976)         |
| Capital Grants, Contracts, Gifts, and Fees                             | 1,548            | 932              |                  |                  |
| Additions to Permanent Endowments                                      |                  |                  | 546              | 887              |
| <b>Increase (Decrease) in Net Assets</b>                               | <b>(317)</b>     | <b>5,368</b>     | <b>9,003</b>     | <b>(11,089)</b>  |
| Net Assets, Beginning of Year  | 89,267           | 83,899           | 58,787           | 69,876           |
| <b>Net Assets, End of Year</b>   | <b>\$ 88,950</b> | <b>\$ 89,267</b> | <b>\$ 67,790</b> | <b>\$ 58,787</b> |

### 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 chart presents the College's operating revenues for the 2009-10 and 2008-09 fiscal years:

**Operating Revenues: College  
(In Thousands)**



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

- Tuition and fees (net of scholarship allowances) increased \$1.1 million, or 12.9 percent, compared to the 2008-09 fiscal year due primarily to an increase in student enrollment of 21.5 percent and an increase in tuition rates of five percent. The preceding were offset by an increase in scholarship allowances of \$3.2 million or 58.1 percent. Scholarship allowances increased due to an increase in student enrollment and a proportionately larger increase in students who received student financial aid.
- State and local grants decreased 41.6 percent compared to the 2008-09 fiscal year due primarily to the reduction of new and existing grants and contracts from the State.
- Sales and services of educational departments increased 19.8 percent compared to the 2008-09 fiscal year due to increases in demand for services provided by the College.

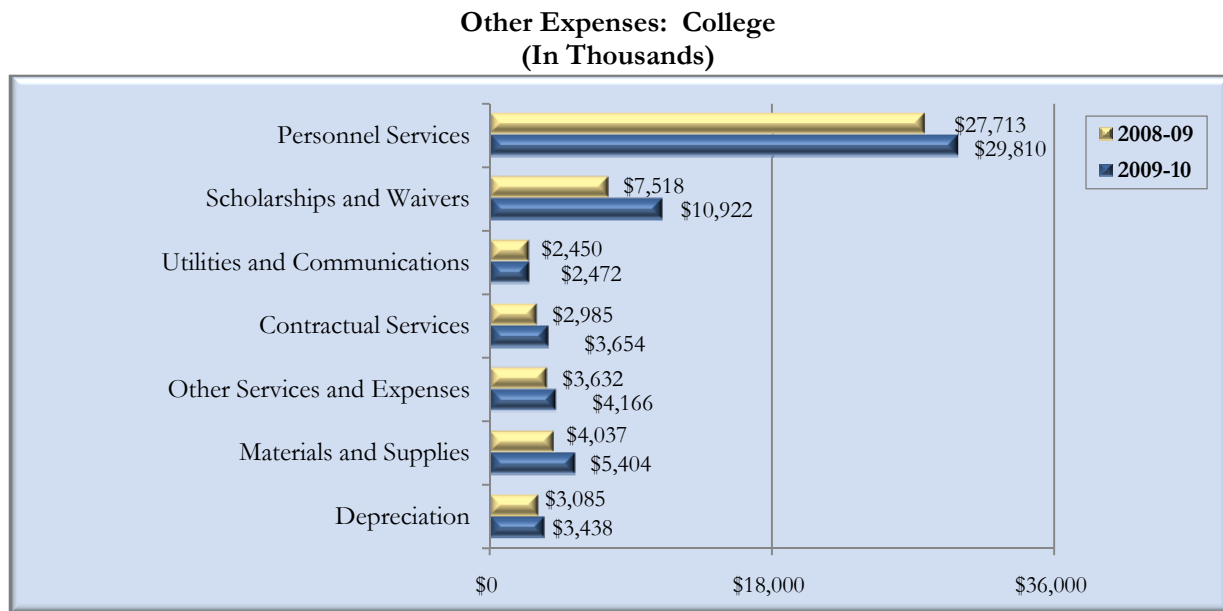
**Operating Expenses**

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 assets and has displayed the functional classification in the notes to financial statements.

Operating expenses for the College and its component units for the respective fiscal years ended are presented in the following table:

|                                 | <b>Operating Expenses<br/>(In Thousands)</b> |                  |                 |                 |
|---------------------------------|--|------------------|-----------------|-----------------|
|                                 | College                                      |                  | Component Units |                 |
|                                 | 6-30-10                                      | 6-30-09          | 12-31-09        | 12-31-08        |
| <b>Operating Expenses</b>       |  |                  |                 |                 |
| Personnel Services              | \$ 29,810                                    | \$ 27,713        | \$              | \$              |
| Scholarships and Waivers        | 10,922                                       | 7,518            | 798             | 802             |
| Utilities and Communications    | 2,472  | 2,450            |                 |                 |
| Contractual Services            | 3,654  | 2,985            | 410             | 495             |
| Other Services and Expenses     | 4,166  | 3,632            | 1,701           | 2,194           |
| Materials and Supplies          | 5,404  | 4,037            | 177             | 167             |
| Depreciation                    | 3,438  | 3,085            | 175             | 177             |
| <b>Total Operating Expenses</b> | <b>\$ 59,866</b>                             | <b>\$ 51,420</b> | <b>\$ 3,261</b> | <b>\$ 3,835</b> |

The following chart presents the College’s operating expenses for the 2009-10 and 2008-09 fiscal years:



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

- Personnel services, which are the primary operating expenses for the College, increased \$2.1 million or 7.6 percent from the 2008-09 fiscal year due mainly to the increase in instructional compensation for additional adjuncts and overloads to accommodate the increase in student enrollment. There was also an increase in costs for employee healthcare benefits of 8 percent.
- Scholarships and waivers increased by \$3.4 million or 45.3 percent, due primarily to the increase in student enrollment and therefore an increase in the demand for student financial aid in the 2009-10 school year.
- Material and supplies and contractual services increased \$1.4 million and \$0.7 million, respectively, compared to the 2008-09 fiscal year. The purchase of minor equipment and computer technology increased the material and supplies expense for the 2009-10 fiscal year.

**Nonoperating Revenues and Expenses**

Certain revenue sources that the College relies on to provide funding for operations, including State appropriations, 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 2009-10 and 2008-09 fiscal years:

**Nonoperating Revenues (Expenses): College  
(In Thousands)**

|  | 2009-10          | 2008-09          |
|--|------------------|------------------|
| State Appropriations                   | \$ 18,705        | \$ 20,218        |
| Grants and Scholarships                | 20,037           | 11,974           |
| Investment Income                      | 280              | 95               |
| Other Nonoperating Revenues            | 165              | 163              |
| Interest on Capital Asset-Related Debt | (175)            | (171)            |
| <b>Net Nonoperating Revenues</b>       | <b>\$ 39,012</b> | <b>\$ 32,279</b> |

Changes in the College's nonoperating revenues and expenses were the result of the following factors:

- State appropriations decreased by \$1.5 million from the 2008-09 fiscal year. The decrease is due to reductions in State funding for current operations and performance-based funding.
- Grants and scholarships increased by \$8.1 million or 67.3 percent from the 2008-09 fiscal year due to an increase in Federal Pell grants for students and receipt of State appropriated Federal American Recovery and Reinvestment Act (ARRA) funding.

**Other Revenues, Expenses, Gains, or Losses**

This category is composed of capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues, expenses, gains, or losses for the 2009-10 and 2008-09 fiscal years:

**Other Revenues, Expenses, Gains, or Losses: College  
(In Thousands)**

|  | 2009-10         | 2008-09         |
|--|-----------------|-----------------|
| Capital Appropriations                     | \$ 3,425        | \$ 9,048        |
| Capital Grants, Contracts, Gifts, and Fees | 1,548           | 932             |
| <b>Total</b>                               | <b>\$ 4,973</b> | <b>\$ 9,980</b> |

Changes in the College's revenues, expenses, gains, or losses were the result of the following factors:

- Capital appropriations decreased by \$5.6 million from the 2008-09 fiscal year. This decrease is due to a reduction in Public Education Capital Outlay allocations received during the 2009-10 fiscal year.
- Capital grants, contracts, gifts, and fees increased by \$0.6 million from the 2008-09 fiscal year due primarily to the increase in capital improvement fees brought about by the increase in student enrollment during the 2009-10 school year and the increase in rates charged per credit hour.

**THE STATEMENT OF CASH FLOWS**

Another way to assess the financial health of an institution is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess:

- An entity's ability to generate future net cash flows.
- Its ability to meet its obligations as they come due.
- Its need for external financing.

A summary of the College's cash flows for the 2009-10 and 2008-09 fiscal years is presented in the following table:

**Condensed Statement of Cash Flows: College  
(In Thousands)**

|   | 2009-10          | 2008-09          |
|---|------------------|------------------|
| Cash Provided (Used) by:                                    |                  |                  |
| Operating Activities  | \$ (42,846)      | \$ (32,286)      |
| Noncapital Financing Activities                             | 38,927           | 31,979           |
| Capital and Related Financing Activities                    | 1,231            | 2,769            |
| Investing Activities  | 266              | 395              |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b> | (2,422)          | 2,857            |
| Cash and Cash Equivalents, Beginning of Year                | 14,065           | 11,208           |
| <b>Cash and Cash Equivalents, End of Year</b>               | <b>\$ 11,643</b> | <b>\$ 14,065</b> |

For the purpose of the statement of cash flows, cash equivalents include cash on hand and cash in demand accounts. Major sources of funds came from State appropriations (\$18.7 million), net student tuition and fees (\$8.7 million), grants and scholarships (\$20 million), and capital appropriations (\$4.4 million). Major uses of funds were for payments to employees (\$24 million), payments for employee benefits (\$5.6 million), and payments to suppliers (\$14.4 million).

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

- The College's cash and cash equivalents decreased by \$2.4 million, or 17.2 percent from 2008-09 fiscal year, primarily due to a decrease in cash received from capital appropriations.
- Cash outflows from operating activities increased \$10.6 million primarily due to increases in payments to suppliers (\$4.5 million), payments for scholarships (\$3.4 million), and payments to employees (\$1.8 million).
- Noncapital financing activities increased \$6.9 million, or 21.7 percent, from the 2008-09 fiscal year due to an increase in grants and scholarships of \$8.1 million from the 2008-09 fiscal year. The increase in grants and scholarships can be attributed to the increase in student financial aid from an increase in student enrollment.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **CAPITAL ASSETS**

At June 30, 2010, the College had \$125.5 million in capital assets, less accumulated depreciation of \$44.8 million, for net capital assets of \$80.7 million. Depreciation charges for the current fiscal year totaled \$3.4 million. The following table summarizes the College's capital assets at June 30:

**Capital Assets, Net at June 30: College  
(In Thousands)**

| <u>Capital Assets</u>                 | <u>2010</u>      | <u>2009</u>      |
|---------------------------------------|------------------|------------------|
| Land                                  | \$ 13,969        | \$ 13,969        |
| Buildings                             | 94,424           | 85,914           |
| Other Structures and Improvements     | 8,327            | 7,706            |
| Furniture, Machinery, and Equipment   | 6,140            | 5,692            |
| Assets Under Capital Lease (1)        | 2,604            | 2,894            |
| Construction in Progress              |                  | <u>5,846</u>     |
| <b>Total</b>                          | <u>125,464</u>   | <u>122,021</u>   |
| Less, Accumulated Depreciation:       |                  |                  |
| Buildings                             | 33,027           | 31,005           |
| Other Structures and Improvements     | 5,824            | 5,234            |
| Furniture, Machinery, and Equipment   | 4,987            | 4,555            |
| Assets Under Capital Lease (1)        | <u>912</u>       | <u>878</u>       |
| <b>Total Accumulated Depreciation</b> | <u>44,750</u>    | <u>41,672</u>    |
| <b>Capital Assets, Net</b>            | <u>\$ 80,714</u> | <u>\$ 80,349</u> |

Note: (1) During 2009-10 fiscal year, one lease was paid off and the asset and depreciation were reclassified as other structures and improvements. As a result, depreciation expense differs from additions to accumulated depreciation by \$96,667.

Capital asset additions during the 2009-10 fiscal year included the following:

- Building additions consisted of \$8.5 million in the completed construction of the new Citrus Instructional Center located on the Citrus Campus, thus accounting for the decrease in construction in progress.
- Furniture, machinery, and equipment additions included the furnishing of the Citrus Instructional Center.

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

#### **DEBT ADMINISTRATION**

At fiscal year-end, the College had \$2.7 million in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2010, and June 30, 2009:

**Long-Term Debt, at June 30: College  
(In Thousands)**

|                          | <u>2010</u>     | <u>2009</u>     |
|--------------------------|-----------------|-----------------|
| SBE Capital Outlay Bonds | \$ 530          | \$ 610          |
| Capital Lease            | <u>2,196</u>    | <u>2,504</u>    |
| <b>Total</b>             | <u>\$ 2,726</u> | <u>\$ 3,114</u> |

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2009-10 fiscal year, there were no bond sales and bond principal repayments totaled \$80 thousand. 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 of Central Florida's economic condition is closely tied to that of the State of Florida. The College's current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services. The College is to receive \$1.6 million in economic stimulus funds through ARRA funds for the 2010-11 fiscal year. This Federal grant money will be used to pay a portion of adjunct instructors' salaries during the 2010-11 school year.

In light of these uncertain economic times, the College will continue to closely monitor its financial position. If the economy continues its' uncertainty and instability or if restoration of State funds does not occur in the near future, the Administration and Board of Trustees will be faced with challenges to make changes in order to keep the College financially sound.

**REQUESTS FOR INFORMATION**

Questions concerning information provided in the MD&A, and financial statements and notes thereto, or requests for additional financial information should be addressed to Dr. James Harvey, Senior Vice President, College of Central Florida, 3001 S.W. College Road, Ocala, Florida 34473-4415.

**BASIC FINANCIAL STATEMENTS**

**COLLEGE OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET ASSETS  
June 30, 2010**

|  | College              | Component<br>Units   |
|--|----------------------|----------------------|
| <b>ASSETS</b>                            |                      |                      |
| Current Assets:                          |                      |                      |
| Cash and Cash Equivalents                | \$ 7,072,506         | \$ 7,191,936         |
| Restricted Cash and Cash Equivalents     | 331,801              |                      |
| Restricted Investments                   |                      | 92,661               |
| Accounts Receivable                      | 1,579,924            |                      |
| Due from Other Governmental Agencies     | 1,859,091            |                      |
| Due from Component Units                 | 217,248              |                      |
| Inventories                              | 43,106               |                      |
| Prepaid Expenses                         | 85,461               | 61,562               |
| Other Assets                             | 10,000               | 1,245,621            |
| <b>Total Current Assets</b>              | <b>11,199,137</b>    | <b>8,591,780</b>     |
| Noncurrent Assets:                       |                      |                      |
| Restricted Cash and Cash Equivalents     | 4,238,668            | 1                    |
| Restricted Investments                   | 252,606              | 1,665,326            |
| Endowment Investments                    |                      | 38,785,515           |
| Land and Property Held for Investment    |                      | 1,066,771            |
| Due from Component Units                 | 989,544              |                      |
| Depreciable Capital Assets, Net          | 66,745,206           | 4,390,229            |
| Nondepreciable Capital Assets            | 13,969,280           | 17,290,940           |
| Other Assets                             |                      | 678,977              |
| <b>Total Noncurrent Assets</b>           | <b>86,195,304</b>    | <b>63,877,759</b>    |
| <b>TOTAL ASSETS</b>                      | <b>\$ 97,394,441</b> | <b>\$ 72,469,539</b> |
| <b>LIABILITIES</b>                       |                      |                      |
| Current Liabilities:                     |                      |                      |
| Accounts Payable                         | \$ 973,961           | \$ 150,512           |
| Salary and Payroll Taxes Payable         | 1,008,401            |                      |
| Due to Other Governmental Agencies       | 1,159                |                      |
| Due to College                           |                      | 193,581              |
| Deferred Revenue                         | 126,326              | 64,327               |
| Accrued Loss on Interest Rate Collar     |                      | 136,253              |
| Deposits Held for Others                 | 587,323              | 44,915               |
| Line of Credit Payable                   |                      | 24,546               |
| Long-Term Liabilities - Current Portion: |                      |                      |
| Bonds Payable                            | 85,000               | 305,000              |
| Capital Lease Payable                    | 96,562               |                      |
| Compensated Absences Payable             | 197,835              |                      |
| Other Long-Term Liabilities              |                      | 42,198               |
| <b>Total Current Liabilities</b>         | <b>3,076,567</b>     | <b>961,332</b>       |

**COLLEGE OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET ASSETS (Continued)  
June 30, 2010**

|   | <b>College</b>       | <b>Component<br/>Units</b> |
|---|----------------------|----------------------------|
| <b>LIABILITIES (Continued)</b>                  |                      |                            |
| Noncurrent Liabilities:                         |                      |                            |
| Bonds Payable                                   | \$ 445,000           | \$ 2,570,000               |
| Loan Payable to College                         |                      | 935,126                    |
| Capital Lease Payable                           | 2,099,854            |                            |
| Compensated Absences Payable                    | 2,724,557            |                            |
| Other Postemployment Benefits Payable           | 98,059               |                            |
| Other Long-Term Liabilities                     |                      | 213,439                    |
| <b>Total Noncurrent Liabilities</b>             | <b>5,367,470</b>     | <b>3,718,565</b>           |
| <b>TOTAL LIABILITIES</b>                        | <b>8,444,037</b>     | <b>4,679,897</b>           |
| <b>NET ASSETS</b>                               |                      |                            |
| Invested in Capital Assets, Net of Related Debt | 77,988,070           | 18,806,169                 |
| Restricted:                                     |                      |                            |
| Nonexpendable:                                  |                      |                            |
| Endowment                                       |                      | 35,986,111                 |
| Expendable:                                     |                      |                            |
| Grants and Loans                                | 815,249              | 6,649,545                  |
| Scholarships                                    | 116,166              |                            |
| Capital Projects                                | 4,133,110            |                            |
| Debt Service                                    | 20,289               |                            |
| Unrestricted                                    | 5,877,520            | 6,347,817                  |
| <b>Total Net Assets</b>                         | <b>88,950,404</b>    | <b>67,789,642</b>          |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <b>\$ 97,394,441</b> | <b>\$ 72,469,539</b>       |

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

**COLLEGE OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the Fiscal Year Ended June 30, 2010**

|  | <u>College</u>       | <u>Component<br/>Units</u> |
|--|----------------------|----------------------------|
| <b>REVENUES</b>  |                      |                            |
| Operating Revenues:  |                      |                            |
| Student Tuition and Fees, Net of Scholarship Allowances of \$8,768,232 | \$ 9,797,279         | \$                         |
| Federal Grants and Contracts   | 2,537,637            |                            |
| State and Local Grants and Contracts                                   | 152,653              |                            |
| Nongovernmental Grants and Contracts                                   | 266,729              | 3,309,672                  |
| Sales and Services of Educational Departments                          | 1,211,403            |                            |
| Auxiliary Enterprises  | 299,423              |                            |
| Other Operating Revenues   | 1,298,883            | 1,356,385                  |
| <b>Total Operating Revenues</b>  | <u>15,564,007</u>    | <u>4,666,057</u>           |
| <b>EXPENSES</b>  |                      |                            |
| Operating Expenses:  |                      |                            |
| Personnel Services   | 29,809,973           |                            |
| Scholarships and Waivers   | 10,921,988           | 798,204                    |
| Utilities and Communications   | 2,472,473            |                            |
| Contractual Services   | 3,653,540            | 409,481                    |
| Other Services and Expenses  | 4,166,308            | 1,701,454                  |
| Materials and Supplies   | 5,403,614            | 176,808                    |
| Depreciation   | 3,438,292            | 174,959                    |
| <b>Total Operating Expenses</b>  | <u>59,866,188</u>    | <u>3,260,906</u>           |
| <b>Operating Income (Loss)</b>   | <u>(44,302,181)</u>  | <u>1,405,151</u>           |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                                |                      |                            |
| State Appropriations   | 18,704,866           |                            |
| Grants and Scholarships  | 20,037,471           |                            |
| Investment Income  | 279,978              | 6,808,053                  |
| Other Nonoperating Revenues  | 165,536              | 384,576                    |
| Interest on Capital Asset-Related Debt                                 | (175,131)            | (141,281)                  |
| <b>Net Nonoperating Revenues</b>                                       | <u>39,012,720</u>    | <u>7,051,348</u>           |
| <b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b> | <u>(5,289,461)</u>   | <u>8,456,499</u>           |
| Capital Appropriations   | 3,425,139            |                            |
| Capital Grants, Contracts, Gifts, and Fees                             | 1,548,009            |                            |
| Additions to Permanent Endowments                                      |                      | 546,185                    |
| <b>Total Other Revenues</b>  | <u>4,973,148</u>     | <u>546,185</u>             |
| <b>Increase (Decrease) in Net Assets</b>                               | <u>(316,313)</u>     | <u>9,002,684</u>           |
| Net Assets, Beginning of Year  | 89,266,717           | 58,786,958                 |
| <b>Net Assets, End of Year</b>   | <u>\$ 88,950,404</u> | <u>\$ 67,789,642</u>       |

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

**COLLEGE OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF CASH FLOWS  
For the Fiscal Year Ended June 30, 2010**

|   | <b>College</b>       |
|---|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                      |
| Tuition and Fees, Net   | \$ 8,696,035         |
| Grants and Contracts  | 2,914,800            |
| Payments to Suppliers   | (14,353,023)         |
| Payments for Utilities and Communications                       | (2,472,473)          |
| Payments to Employees   | (24,006,812)         |
| Payments for Employee Benefits                                  | (5,593,503)          |
| Payments for Scholarships                                       | (10,921,988)         |
| Auxiliary Enterprises   | 299,423              |
| Sales and Service of Educational Departments                    | 1,211,403            |
| Other Receipts  | 1,379,849            |
|   | <b>(42,846,289)</b>  |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |                      |
| State Appropriations  | 18,704,866           |
| Grants and Scholarships   | 20,046,796           |
| Student Direct Lending Receipts                                 | 11,773,796           |
| Student Direct Lending Disbursements                            | (11,773,796)         |
| Other Nonoperating Receipts                                     | 175,370              |
|   | <b>38,927,032</b>    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                      |
| Capital Appropriations  | 4,400,382            |
| Capital Grants, Contracts, Gifts, and Fees                      | 1,548,009            |
| Purchases of Capital Assets                                     | (4,154,559)          |
| Principal Paid on Capital Debt and Leases                       | (387,612)            |
| Interest Paid on Capital Debt and Leases                        | (175,131)            |
|   | <b>1,231,089</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                      |
| Purchase of Investments   | (126,623)            |
| Investment Income   | 392,585              |
|   | <b>265,962</b>       |
| <b>Net Decrease in Cash and Cash Equivalents</b>                | <b>(2,422,206)</b>   |
| Cash and Cash Equivalents, Beginning of Year                    | 14,065,181           |
|   | <b>\$ 11,642,975</b> |

**COLLEGE OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF CASH FLOWS (Continued)  
For the Fiscal Year Ended June 30, 2010**

|  | <b>College</b>         |
|--|------------------------|
| <b>RECONCILIATION OF OPERATING LOSS<br/>TO NET CASH USED BY OPERATING ACTIVITIES</b>   |                        |
| Operating Loss   | \$ (44,302,181)        |
| Adjustments to Reconcile Operating Loss<br>to Net Cash Used by Operating Activities:   |                        |
| Depreciation Expense   | 3,438,292              |
| Changes in Assets and Liabilities:   |                        |
| Accounts Receivable  | (973,600)              |
| Due From Other Governmental Agencies   | (345,136)              |
| Inventories  | (4,753)                |
| Due from Component Units   | 19,160                 |
| Prepaid Expenses   | (14,672)               |
| Due to Other Governmental Agencies   | (347)                  |
| Accounts Payable   | (772,633)              |
| Salaries and Payroll Taxes Payable   | 5,377                  |
| Deferred Revenue   | (166,497)              |
| Deposits Held for Others   | 66,419                 |
| Compensated Absences Payable   | 170,464                |
| Other Postemployment Benefits Payable  | 33,818                 |
|  | <b>\$ (42,846,289)</b> |
| <b>NET CASH USED BY OPERATING ACTIVITIES</b>   |                        |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY</b>   |                        |
| Unrealized losses were recognized as reductions to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows. | \$ 112,607             |

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

**COLLEGE OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity.** The governing body of the College of Central Florida<sup>1</sup>, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of seven members appointed by the Governor and confirmed by the Senate. The District Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by law and State Board of Education rules. However, the District 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 State Board of Education rules. Geographic boundaries of the District correspond with those of Marion, Citrus, and Levy Counties.

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

**Discretely Presented Component Units.** Based on the application of the criteria for determining component units, the following component units are included within the College's reporting entity:

- College of Central Florida Foundation, Inc.<sup>2</sup> (Foundation): This organization provides funding and services to support and foster the pursuit of higher education at the College.
- The Appleton Cultural Center, Inc. (Center): This organization is organized and operated exclusively for the benefit of the Appleton Museum of Art, which is owned and operated by the College Board of Trustees.

The Foundation and the Center are audited by other auditors pursuant to Section 1004.70(6), Florida Statutes, and the audited financial statements are available to the public at the College. The Foundation's and the Center's financial data reported on the accompanying financial statements was derived from their respective audited financial statements for the fiscal year ended December 31, 2009.

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<sup>1</sup> The College's Board of Trustees approved the name change from Central Florida Community College to College of Central Florida on May 25, 2010, pursuant to Section 1001.60(2)(b), Florida Statutes.

<sup>2</sup> The College's direct-support organization approved the name change from Central Florida Community College Foundation, Inc., to College of Central Florida Foundation, Inc.

**COLLEGE OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2010**

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

**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 the Governmental Accounting Standards Board (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 Assets
  - Statement of Revenues, Expenses, and Changes in Net Assets
  - Statement of Cash Flows
  - Notes to Financial Statements
- Other Required Supplementary Information

**Basis of Accounting.** Basis of accounting refers to when revenues, expenses, and related assets and liabilities 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, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

The College's component units use the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The Foundation follows GASB standards of accounting and financial reporting and the Center follows FASB standards of accounting and financial reporting for not-for-profit organizations.

The College follows GASB and FASB pronouncements issued on or before November 30, 1989, unless the FASB pronouncements conflict with GASB pronouncements. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*,

**COLLEGE OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2010**

the College has the option to elect to apply all pronouncements of FASB issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The College has elected not to apply FASB pronouncements issued after November 30, 1989.

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 appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is considered a nonoperating expense.

The statement of net assets 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 assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College calculated its scholarship allowances by tracking actual recorded amounts of tuition and fees paid by scholarship revenues in each scholarship account. To the extent that these resources are used to pay student charges, the College records a scholarship allowance against tuition and fee revenues.

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 and cash in demand accounts. For reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less 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.

**Cash and Cash Equivalents - Component Units.** The amount reported for the component units as cash and cash equivalents consists of cash, money market accounts, and highly liquid fixed income investments with original maturities of three months or less. Cash deposits in excess of Federal Depositors Insurance

**COLLEGE OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2010**

Corporation (FDIC) limits at individual financial institutions and cash held in money market accounts are uninsured. Management does not consider this risk significant. Certain investments are held in brokerage house investment accounts that are not insured by the FDIC. The total amount of cash balances held at financial institutions or brokerage accounts at December 31, 2009, was \$5,906,998.

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

- Buildings – 10 or 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 – 3 to 7 years
- Assets Under Capital Lease – 20 years

The Foundation's land, buildings, and equipment are stated at cost except for donated property, which is stated at fair market value or replacement cost on the date of donation, and is net of accumulated depreciation of \$1,747,650. The Foundation depreciates buildings and equipment using the straight-line method over estimated lives ranging from 5 years for most equipment to 40 years for buildings.

The Center capitalizes all property and equipment with a cost of greater than \$500 and an estimated useful life exceeding one year. Property and equipment is depreciated from three to seven years using the straight-line method. As of December 31, 2009, all property and equipment, totaling \$4,592, is fully depreciated.

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

**COLLEGE OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

**2. INVESTMENTS**

**College**

The College’s 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; 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; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College’s Board of Trustees as authorized by law. State Board of Education Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The College’s investments at June 30, 2010, are reported at fair value, as follows:

| <u>Investment Type</u>   | <u>Amount</u>            |
|--|--------------------------|
| State Board of Administration Fund B<br>Surplus Funds Trust Fund | \$ 232,317               |
| State Board of Administration Debt Service<br>Accounts           | <u>20,289</u>            |
| <b>Total College Investments</b>                                 | <b><u>\$ 252,606</u></b> |

**State Board of Administration Fund B Surplus Funds Trust Fund.** On December 4, 2007, the State Board of Administration (SBA) restructured the Local Government Surplus Funds Trust Fund to establish the Fund B Surplus Funds Trust Fund (Fund B). Fund B, which is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to the Florida PRIME investment pool, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as a liquid balance within the Florida PRIME investment pool.

At June 30, 2010, the College reported investments at fair value of \$232,317 for amounts held in Fund B. The College’s investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.67353149 at June 30, 2010. The weighted-average life (WAL) of Fund B at June 30, 2010, was 8.05 years. A portfolio’s WAL is the dollar-weighted average length of time until securities held reach

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maturity and is based on legal final maturity dates for Fund B as of June 30, 2010. WAL measures the sensitivity of Fund B to interest rate changes. The College's investment in Fund B is unrated.

**State Board of Administration Debt Service Accounts.** The College reported investments at fair value totaling \$20,289 at June 30, 2010, in the State Board of Administration (SBA) Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the College. These investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

**Component Units**

**College of Central Florida Foundation, Inc.** Investments include endowed investments of \$38,785,515 in United States Government securities, and corporate debt securities and equities, reported at fair value based on quoted market prices, and real estate holdings of \$1,066,771 reported at fair market value at the date of gift. In addition, non-endowed assets held for various temporarily restricted purposes totaling \$1,065,326 are invested separately and managed in accordance with the policies adopted by the Foundation's Board of Directors.

Endowed investments are managed by bank trust departments and investment brokerage houses. The Foundation has established an investment policy for its endowed investments and has investment managers who are required to oversee the management of the portfolios pursuant to its investment policy. The Foundation's investment policy does not apply to the Appleton Museum Family Endowment and the Edith Appleton Endowment, which are managed and governed by a trust company based on guidelines established by the Appleton family.

The following information is presented for the Appleton Museum Family Endowment portfolio, the Edith Appleton Endowment portfolio, and other endowed investments:

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| Investment   | Weighted-Average<br>Maturity or<br>Duration (Years) | Credit<br>Quality<br>Rating | Fair<br>Value               |
|--|---|-----------------------------|-----------------------------|
| Appleton Museum Family Endowment:                  |   |                             |                             |
| U.S. Treasury Notes                                | 7.8   | Aaa                         | \$ 303,335                  |
| Government Agency Bonds                            | 7.8   | Aaa                         | 289,523                     |
| Corporate Bonds                                    | 7.8   | Aa                          | 25,896                      |
| Corporate Bonds                                    | 7.8   | A                           | 156,178                     |
| Corporate Bonds Fund                               | 7.8   | Unrated                     | 132,021                     |
| Equities   | (1)   | (1)                         | 1,568,355                   |
| Hedge Fund   | (1)   | (1)                         | 80,512                      |
| Global Real Estate                                 | (1)   | (1)                         | 20,477                      |
| Commodities  | (1)   | (1)                         | 126,573                     |
| Accruals   | (1)   | (1)                         | 8,126                       |
| Edith Appleton Endowment:                          |   |                             |                             |
| U.S. Treasury Notes                                | 10.2  | Aaa                         | 201,772                     |
| Government Agency Bonds                            | 10.2  | Aaa                         | 262,380                     |
| Corporate Bond                                     | 10.2  | A                           | 296,512                     |
| Corporate Bonds                                    | 10.2  | Baa                         | 52,984                      |
| Corporate Bond Fund                                | 10.2  | Unrated                     | 228,281                     |
| Equities   | (1)   | (1)                         | 7,695,083                   |
| Hedge Fund   | (1)   | (1)                         | 483,040                     |
| Global Real Estate                                 | (1)   | (1)                         | 42,661                      |
| Commodities  | (1)   | (1)                         | 267,907                     |
| Accruals   | (1)   | (1)                         | 11,626                      |
| Other Endowed Investments:                         |   |                             |                             |
| U.S. Treasury Notes                                | 2.59  | AAA                         | 421,604                     |
| Government Agency Bonds                            | 2.24  | AAA                         | 1,579,684                   |
| Corporate Bonds                                    | 4.23  | AA                          | 2,734,021                   |
| Corporate Bonds                                    | 4.43  | A                           | 3,182,486                   |
| Equities   | (1)   | (1)                         | 17,173,178                  |
| Structured Note                                    | 3.49  | AA                          | 1,441,300                   |
| <b>Total of Foundation's Endowment Investments</b> |   |                             | <b><u>\$ 38,785,515</u></b> |

Note: (1) Disclosure of maturity/duration or credit quality is not required.

*Interest Rate Risk:* Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The weighted-average-maturity method is used to determine the interest rate risk for the Appleton Museum Family Endowment, the Edith Appleton Endowment, and for the other endowed investments.

*Credit Risk:* Credit risk relates to the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings for debt securities are shown in the above schedule. The Foundation's investment policy requires the overall portfolio of fixed income securities to have an overall weighted-average credit quality rating of "A" or better, and no more than 15 percent of the total portfolio investments may be rated below investment grade "Baa." Investment ratings are from Moody's Investor Services, Inc.

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

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- Appleton Museum Family Endowment and Edith Appleton Endowment – All investments are held in a counterparty account for the Northern Trust Company, a trust department, as custodian for the above referenced client account.
- Other Endowed Investments – All investments are held in counterparty accounts as custodian for the Foundation and managed by South Street Advisors.

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. The Foundation's investment policy does not allow for an investment in any one issuer to exceed seven percent of the portfolio. There is no concentration of credit risk with the Appleton Museum Family Endowment, the Edith Appleton Endowment, or other endowed investment portfolios.

**The Appleton Cultural Center, Inc.** Endowment investments are carried at market value and consist of mutual funds invested in United States Government securities totaling \$692,661 at December 31, 2009.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable primarily consists of student fee deferments. Accounts receivables totaling \$404,169 considered uncollectible were written-off during the 2009-10 fiscal year. Accordingly, receivables reported at June 30 are considered fully collectible and therefore, no allowance for uncollectible accounts has been recognized.

**4. DUE FROM OTHER GOVERNMENTAL AGENCIES**

This amount primarily consists of \$985,000 of Public Education Capital Outlay allocations due from the State for construction and remodeling, renovation, maintenance, and repair of College facilities and \$655,253 due from the Federal Government for contracts and grants expenditure reimbursements.

**5. DUE FROM COMPONENT UNITS**

The College's financial statements are reported for the fiscal year ended June 30, 2010, and the financial statements of the component units are reported for the fiscal year ended December 31, 2009. Accordingly, on the statement of net assets, the amount (current) due from component units of \$217,248 reported by the College does not agree with the amount (current) due to College reported by the component units of \$193,581. Similarly, on the statement of net assets the amount (noncurrent) due from component units reported by the College of \$989,544, which represents advances provided to the Foundation by the College pursuant to a limited pledge agreement as explained in note 8, does not agree with the amount (noncurrent) loan payable to College reported by the Foundation of \$935,126.

**6. INVENTORIES**

Inventories consist primarily of items for resale by the Appleton Museum gift shop and are valued using the last invoice cost, which approximates the first-in, first-out, method of inventory valuation.

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**7. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2010, is shown below:

| Description                                  | Beginning<br>Balance | Additions           | Reductions          | Ending<br>Balance    |
|--|----------------------|---------------------|---------------------|----------------------|
| <b>Nondepreciable Capital Assets:</b>        |                      |                     |                     |                      |
| Land   | \$ 13,969,280        | \$                  | \$                  | \$ 13,969,280        |
| Construction in Progress                     | 5,845,522            | 2,829,887           | 8,675,409           |                      |
| <b>Total Nondepreciable Capital Assets</b>   | <b>\$ 19,814,802</b> | <b>\$ 2,829,887</b> | <b>\$ 8,675,409</b> | <b>\$ 13,969,280</b> |
| <b>Depreciable Capital Assets:</b>           |                      |                     |                     |                      |
| Buildings                                    | \$ 85,913,572        | \$ 8,675,409        | \$ 165,007          | \$ 94,423,974        |
| Other Structures and Improvements            | 7,706,553            | 620,229             |                     | 8,326,782            |
| Furniture, Machinery, and Equipment          | 5,691,903            | 643,759             | 196,023             | 6,139,639            |
| Assets Under Capital Lease (1)               | 2,894,386            |                     | 290,000             | 2,604,386            |
| <b>Total Depreciable Capital Assets</b>      | <b>102,206,414</b>   | <b>9,939,397</b>    | <b>651,030</b>      | <b>111,494,781</b>   |
| <b>Less, Accumulated Depreciation:</b>       |                      |                     |                     |                      |
| Buildings                                    | 31,005,015           | 2,186,783           | 165,007             | 33,026,791           |
| Other Structures and Improvements            | 5,233,879            | 589,914             |                     | 5,823,793            |
| Furniture, Machinery, and Equipment          | 4,555,436            | 628,044             | 196,023             | 4,987,457            |
| Assets Under Capital Lease (1)               | 877,983              | 130,218             | 96,667              | 911,534              |
| <b>Total Accumulated Depreciation</b>        | <b>41,672,313</b>    | <b>3,534,959</b>    | <b>457,697</b>      | <b>44,749,575</b>    |
| <b>Total Depreciable Capital Assets, Net</b> | <b>\$ 60,534,101</b> | <b>\$ 6,404,438</b> | <b>\$ 193,333</b>   | <b>\$ 66,745,206</b> |

Note: (1) During the 2009-10 fiscal year, an equipment lease was paid off and the assets and depreciation were reclassified as other structures and improvements. As a result, depreciation expense on the statement of revenues, expenses, and changes in net assets differs from additions to depreciation by \$96,667.

Capital asset activity of the Foundation and the Center (component units) for the fiscal year ended December 31, 2009, is shown below:

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| Description                                  | Beginning<br>Balance | Additions           | Reductions | Ending<br>Balance    |
|--|----------------------|---------------------|------------|----------------------|
| <b>Nondepreciable Capital Assets:</b>        |                      |                     |            |                      |
| Land   | \$ 459,640           | \$                  | \$         | \$ 459,640           |
| Works of Art and Historical Treasures        | 16,818,799           | 12,501              |            | 16,831,300           |
| <b>Total Nondepreciable Capital Assets</b>   | <b>\$ 17,278,439</b> | <b>\$ 12,501</b>    | <b>\$</b>  | <b>\$ 17,290,940</b> |
| <b>Depreciable Capital Assets:</b>           |                      |                     |            |                      |
| Buildings                                    | \$ 6,063,065         | \$                  | \$         | \$ 6,063,065         |
| Furniture, Machinery, and Equipment          | 79,406               |                     |            | 79,406               |
| <b>Total Depreciable Capital Assets</b>      | <b>6,142,471</b>     |                     |            | <b>6,142,471</b>     |
| <b>Less, Accumulated Depreciation:</b>       |                      |                     |            |                      |
| Buildings                                    | 1,529,380            | 158,581             |            | 1,687,961            |
| Furniture, Machinery, and Equipment          | 59,927               | 4,354               |            | 64,281               |
| <b>Total Accumulated Depreciation</b>        | <b>1,589,307</b>     | <b>162,935</b>      |            | <b>1,752,242</b>     |
| <b>Total Depreciable Capital Assets, Net</b> | <b>\$ 4,553,164</b>  | <b>\$ (162,935)</b> | <b>\$</b>  | <b>\$ 4,390,229</b>  |

Note: Depreciation expense reported on the statement of revenues, expenses, and changes in net assets includes \$12,024 in amortized bond issue costs related to construction of a student housing facility and an office building.

## 8. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2010, include bonds payable, capital lease payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2010, is shown below:

| Description                              | Beginning<br>Balance | Additions         | Reductions        | Ending<br>Balance   | Current<br>Portion |
|--|----------------------|-------------------|-------------------|---------------------|--------------------|
| Bonds Payable                            | \$ 610,000           | \$                | \$ 80,000         | \$ 530,000          | \$ 85,000          |
| Capital Lease Payable                    | 2,504,028            |                   | 307,612           | 2,196,416           | 96,562             |
| Compensated Absences Payable             | 2,751,928            | 272,708           | 102,244           | 2,922,392           | 197,835            |
| Other Postemployment<br>Benefits Payable | 64,241               | 36,852            | 3,034             | 98,059              |                    |
| <b>Total Long-Term Liabilities</b>       | <b>\$ 5,930,197</b>  | <b>\$ 309,560</b> | <b>\$ 492,890</b> | <b>\$ 5,746,867</b> | <b>\$ 379,397</b>  |

Long-term liabilities of the Foundation (component unit) consist of industrial revenue bonds payable, loan payable to College, and other long-term liabilities. The long-term liabilities activity for the Foundation for the fiscal year ended December 31, 2009, is shown below:

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| Description                        | Beginning<br>Balance | Additions         | Reductions        | Ending<br>Balance   | Current<br>Portion |
|------------------------------------|----------------------|-------------------|-------------------|---------------------|--------------------|
| Industrial Revenue Bonds:          |                      |                   |                   |                     |                    |
| Student Housing Bonds              | \$ 1,455,000         | \$                | \$ 225,000        | \$ 1,230,000        | \$ 245,000         |
| Enterprise Center Revenue Bonds    | 1,705,000            |                   | 60,000            | 1,645,000           | 60,000             |
| Loan Payable to College            | 828,841              | 106,285           |                   | 935,126             |                    |
| Other Long-Term Liabilities        | 153,831              | 143,664           | 41,858            | 255,637             | 42,198             |
| <b>Total Long-Term Liabilities</b> | <b>\$ 4,142,672</b>  | <b>\$ 249,949</b> | <b>\$ 326,858</b> | <b>\$ 4,065,763</b> | <b>\$ 347,198</b>  |

**Bonds Payable - College.** The State Board of Education 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 State Board of Education and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2010:

| Bond Type   | Amount<br>Outstanding | Interest<br>Rates<br>(Percent) | Annual<br>Maturity<br>To |
|---|-----------------------|--------------------------------|--------------------------|
| State Board of Education<br>Capital Outlay Bonds: |                       |                                |                          |
| Series 2002B                                      | \$ 270,000            | 4.000 - 5.375                  | 2015                     |
| Series 2005A                                      | 260,000               | 5                              | 2017                     |
| <b>Total Bonds Payable</b>                        | <b>\$ 530,000</b>     |                                |                          |

Annual requirements to amortize all bonded debt outstanding as of June 30, 2010, are as follows:

| Fiscal Year<br>Ending June 30 | State Board of Education Capital Outlay Bonds |                  |                   |
|-------------------------------|---|------------------|-------------------|
|                               | Principal                                     | Interest         | Total             |
| 2011                          | \$ 85,000                                     | \$ 26,756        | \$ 111,756        |
| 2012                          | 90,000  | 22,319           | 112,319           |
| 2013                          | 95,000  | 18,369           | 113,369           |
| 2014                          | 105,000                                       | 13,394           | 118,394           |
| 2015                          | 90,000  | 7,919            | 97,919            |
| 2016-2017                     | 65,000  | 4,250            | 69,250            |
| <b>Total</b>                  | <b>\$ 530,000</b>                             | <b>\$ 93,007</b> | <b>\$ 623,007</b> |

**Bonds Payable - Foundation.** Bonds payable of the Foundation (component unit) at December 31, 2009, consist of the following:

- **Industrial Revenue Bonds, Series 1994.** In 1994, the Foundation issued \$3.5 million of tax-exempt Industrial Revenue Bonds through the City of Ocala, Florida, to construct a student housing facility. In May 1999, the outstanding principal amount of \$3,025,000 was refinanced at an interest rate of 4.76 percent. Principal and interest payments are due semi-annually. The bonds are secured by a

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first mortgage on real property; first lien on personal property; and assignment of leases, rents, and profits. Annual requirements to amortize the Industrial Revenue Bonds, Series 1994, are as follows:

| Fiscal Year Ending<br>December 31 | Industrial Revenue Bonds, Series 1994 |                   |                     |
|-----------------------------------|---------------------------------------|-------------------|---------------------|
|                                   | Principal                             | Interest          | Total               |
| 2010                              | \$ 245,000                            | \$ 55,692         | \$ 300,692          |
| 2011                              | 260,000                               | 43,792            | 303,792             |
| 2012                              | 275,000                               | 31,297            | 306,297             |
| 2013                              | 290,000                               | 18,088            | 308,088             |
| 2014                              | 160,000                               | 3,808             | 163,808             |
| <b>Total</b>                      | <b>\$ 1,230,000</b>                   | <b>\$ 152,677</b> | <b>\$ 1,382,677</b> |

- Enterprise Center Revenue Bonds, Series 2003A1. In May 2003, the Foundation issued \$2 million of tax-exempt Industrial Development Revenue Bonds, Series 2003A1, through the City of Ocala, Florida, to construct a 25,400 square foot office building known as the Enterprise Center, for lease on the Ocala Campus of the College. Interest rate is variable (Bond Market Association (BMA) Index). Interest payments are due monthly and principal payments are due annually. The bonds are secured by a first mortgage on real property; first lien on personal property; and assignment of rents, contracts, and leases. Annual requirements to amortize the Enterprise Center Revenue Bonds, Series 2003A1, are as follows:

| Fiscal Year Ending<br>December 31 | Enterprise Center Revenue Bonds, Series 2003A1 |                   |                     |
|-----------------------------------|--|-------------------|---------------------|
|                                   | Principal                                      | Interest          | Total               |
| 2010                              | \$ 60,000                                      | \$ 72,450         | \$ 132,450          |
| 2011                              | 75,000   | 69,356            | 144,356             |
| 2012                              | 75,000   | 65,981            | 140,981             |
| 2113                              | 80,000   | 62,475            | 142,475             |
| 2014                              | 110,000  | 58,088            | 168,088             |
| 2015-2019                         | 580,000  | 214,050           | 794,050             |
| 2020-2024                         | 665,000  | 73,444            | 738,444             |
| <b>Total</b>                      | <b>\$ 1,645,000</b>                            | <b>\$ 615,844</b> | <b>\$ 2,260,844</b> |

- Derivative Instrument. Effective November 1, 2006, the Foundation entered into a derivative instrument, an interest rate collar with a notational amount of \$1,835,000, with a local bank and a counterparty whereby the local bank has agreed to pay any interest owed by the Foundation on the Enterprise Center Revenue Bonds, Series 2003A1, in excess of 4.5 percent annually.
  - *Objective:* The Foundation entered into the transaction for the purpose of hedging against the risks associated with changing interest rates on the debt since interest on the debt is tied to the BMA Index (based on short-term, tax-exempt variable rate bonds).
  - *Terms:* The derivative instrument is a 10-year swap transaction with an interest rate collar having a maximum interest rate of 4.5 percent and a minimum interest rate of 3.9 percent. The swap’s notational amount of \$1,835,000 matched the principal balance outstanding of the variable rate debt when the agreement was executed. The swap agreement expires November 1, 2016. Annual payments and the outstanding swap obligations are as follows:

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| Fiscal Year Ending<br>December 31 | Swap Notational Amount |              |
|-----------------------------------|------------------------|--------------|
|                                   | Principal              | Balance      |
| 2010                              | \$ 60,000              | \$ 1,585,000 |
| 2011                              | 75,000                 | 1,510,000    |
| 2012                              | 75,000                 | 1,435,000    |
| 2013                              | 80,000                 | 1,355,000    |
| 2014                              | 110,000                | 1,245,000    |
| 2015-2016                         | 220,000                | 1,025,000    |
| <b>Total</b>                      | <b>\$ 620,000</b>      |              |

- *Fair Value:* As of December 31, 2009, the fair market value of the collar, as provided by the counterparty, was an accrued loss of \$136,253. The fair value was determined by the counterparty and was based on the counterparty’s valuation models and assumptions and available market data. The unrealized loss has been reflected in the Foundation’s statement of revenues, expenses, and changes in net assets as a change in value of interest rate collar.
  - *Credit Risk:* SunTrust Bank is the counterparty in the transaction executed by SunTrust Robinson Humphrey/SunTrust Capital Markets. The long-term rating of SunTrust Bank is BBB+/A-2 by Standard & Poor’s and Moody’s Investor Services. The derivative transaction is cross-collateralized to SunTrust Letter of Credit.
  - *Basis Risk:* The Foundation is exposed to the difference between the rate on the variable rate bonds and the floating rate received from the swap counterparty. The Enterprise Center Revenue Bonds, Series 2003A1, are tied to the BMA Index, which is the market benchmark for short-term, tax exempt rates, and those of the derivative are tied to the BMA Municipal Swap Index which is a market basket index of over 200 active high-grade, governmental, tax-exempt, variable rate demand obligation bonds with weekly interest resets. Although the rates are similar, there can be a spread between the two indexes.
  - *Rollover Risk:* The Foundation is exposed to rollover risk on the swap since the agreement terminates prior to payment of all principal on the associated debt. When the swap terminates, the Foundation will not be protected should interest rates on the variable rate BMA Index exceed 4.5 percent.
- *Subsequent Event:* On June 1, 2010, the Foundation exercised its right to redeem the bonds, terminating the letter of credit and the derivative instrument tied to those bonds. Simultaneously, the bond was repurchased by a local community bank for \$1,800,000. The interest rate is fixed at 4.125 percent for five years and may be adjusted for each subsequent five-year period through June 2, 2023. The second quarter of 2010 will reflect a \$136,253 reduction in current liabilities due to the termination of the interest rate collar and payoff of the accrued loss.

**Loan Payable to College - Foundation.** On January 1, 1994, the College entered into a limited pledge agreement with the Foundation (component unit) and a national banking association to facilitate the Foundation’s financing of the student housing facility. The agreement provides, in part, that the College shall pay to the Foundation the amount necessary to meet the Foundation’s obligation in the event the Foundation has insufficient moneys. However, such payments shall be limited to the College’s available resources in the auxillary and scholarship funds up to \$450,000 in any fiscal year. The agreement requires the College to accrue net auxiliary revenue, as defined in the agreement, of \$150,000, and to maintain this

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balance until debt coverage requirements for this project have been met. In December 2003, the Foundation legally obligated itself to the College in the form of an uncollateralized, noninterest bearing advance for amounts provided by the College to assist with unfunded debt service and operating costs associated with the student housing facility. The payable to the College was increased \$106,285 for additional payments made by the College on behalf of the Foundation for the student housing facility.

**Capital Lease Payable.** The College acquired energy saving equipment in the amount of \$2,604,386 under a capital lease agreement. The stated interest rate on the lease is 5.249 percent, subject to adjustment to 180 basis points over the 10-year United States Treasury note rate, to a maximum of 7 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2010, are as follows:

| Fiscal Year<br>Ending June 30            | Amount              |
|--|---------------------|
| 2011                                     | \$ 210,000          |
| 2012                                     | 216,000             |
| 2113                                     | 222,000             |
| 2014                                     | 228,000             |
| 2015                                     | 232,956             |
| 2016-2020                                | 1,169,558           |
| 2021-2024                                | 818,690             |
| <b>Total Minimum Payments</b>            | <b>3,097,204</b>    |
| Less, Amount Representing Interest       | 900,788             |
| <b>Present Value of Minimum Payments</b> | <b>\$ 2,196,416</b> |

**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 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, 2010, the estimated liability for compensated absences, which includes the College’s share of the Florida Retirement System and FICA contributions, totaled \$2,922,392. Of this amount, \$197,835 is considered a current liability as this is expected to be paid in the coming fiscal year. The current portion of the compensated absences liability was based on the actual payout for sick and annual leave for the last six years divided by the previous fiscal year’s total compensated absences balance. The percentages were then averaged, and the resulting percentage was applied to the June 30, 2010, compensated absences balance to determine the current portion.

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

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JUNE 30, 2010**

*Plan Description.* The College contributes to an agent, multiple-employer defined-benefit plan (Plan) administered by the Consortium. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the 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 Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the Plan and the Plan is not included in the annual report of a public employees' retirement system or another entity.

*Funding Policy.* Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend the benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 59 retirees received postemployment healthcare benefits and 44 retirees received postemployment life insurance benefits. The College provides annual contributions toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums; however, during the 2009-2010 fiscal year, retiree contributions totaled \$311,711, which exceeded the expected costs of benefits by \$13,058.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

| Description   | Amount    |
|---|-----------|
| Normal Cost (Service Cost for One Year)                 | \$ 16,115 |
| Amortization of Unfunded Actuarial<br>Accrued Liability | 5,778     |
| <b>Annual Required Contribution</b>                     | 21,893    |
| Interest on Net OPEB Obligation                         | 1,901     |
| Adjustment to Annual Required Contribution              | (3,034)   |
| <b>Annual OPEB Cost (Expense)</b>                       | 20,760    |
| Contribution Toward the OPEB Cost (1)                   | 13,058    |
| <b>Increase in Net OPEB Obligation</b>                  | 33,818    |
| Net OPEB Obligation, Beginning of Year                  | 64,241    |
| <b>Net OPEB Obligation, End of Year</b>                 | \$ 98,059 |

Note: (1) Retiree contributions exceeded the expected current costs of benefits.

The College’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2010, and for the transition and preceding years, were as follows:

| Fiscal Year                     | Annual<br>OPEB Cost | Percentage of<br>Annual<br>OPEB Cost<br>Contributed | Net OPEB<br>Obligation |
|---------------------------------|---------------------|---|------------------------|
| Beginning Balance, July 1, 2007 | \$                  |   | \$                     |
| 2007-08                         | 35,222              | -8.9%   | 32,095                 |
| 2008-09                         | 35,115              | 8.5%  | 64,241                 |
| 2009-10                         | 20,760              | -62.9%  | 98,059                 |

*Funded Status and Funding Progress.* As of July 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$168,293, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$168,293, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$29,809,973 for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 0.56 percent.

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

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

The College's OPEB actuarial valuation as of July 1, 2009, used the projected unit credit actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and the College's 2009-10 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3 percent per year, and an annual healthcare cost trend rate of 8 percent for the 2009-10 fiscal year, reduced by 0.1 to 0.3 percent per year thereafter, to an ultimate rate of 4.5 percent after 18 years. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll amortized over 30 years. The remaining amortization period at June 30, 2010, was 27 years.

## 9. RETIREMENT PROGRAMS

**Florida Retirement System.** Essentially all regular employees of the College are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to four years of credit for military 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 and death benefits, and annual cost-of-living adjustments.

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 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.

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A COMPONENT UNIT OF THE STATE OF FLORIDA  
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JUNE 30, 2010**

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2009-10 fiscal year were as follows:

| Class   | Percent of Gross Salary |                 |
|---|-------------------------|-----------------|
|   | Employee                | Employer<br>(A) |
| Florida Retirement System, Regular  | 0.00                    | 9.85            |
| Florida Retirement System, Senior Management Service  | 0.00                    | 13.12           |
| Deferred Retirement Option Program - Applicable to<br>Members from All of the Above Classes | 0.00                    | 10.91           |
| Florida Retirement System, Reemployed Retiree   | (B)                     | (B)             |

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of the PEORP.  
(B) Contribution rates are dependent upon retirement class in which reemployed.

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$1,312,180, \$1,352,456, and \$1,466,453, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in PEORP 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 this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular, Senior Management Service, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 118 College participants during the 2009-10 fiscal year. Required contributions made to PEORP totaled \$410,440.

Financial statements and other supplementary information of the FRS are included in the State’s Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on 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, Division of Retirement.

**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 six or more years.

**COLLEGE OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2010**

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 FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes, on behalf of the participant, 10.43 percent of the participant's salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity account.

There were 24 College participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled \$159,167.

**10. 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 is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$175 million through February 28, 2010, and up to \$150 million effective March 1, 2010. Insurance coverage obtained through the Consortium included employee group health and hospitalization, life, dental and long-term disability coverage; fire and extended property; general and automobile liability; workers' compensation; and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**11. SCHEDULE OF STATE REVENUE SOURCES**

Revenue from State sources for current operations is primarily from the College Program Fund administered by the Florida Department of Education under the provisions of Section 1011.81, Florida Statutes. In accordance with Section 1011.84, Florida Statutes, the Legislature determines each college's apportionment considering the following components: base budget, which includes the State appropriation to the College Program Fund in the current year plus the related student tuition and fees assigned in the current General Appropriations Act; the cost-to-continue allocation, which consists of incremental changes to the base budget, including salaries, price levels, and other related costs; enrollment workload adjustments; operation costs of new facilities adjustments; and new and improved program enhancements, which are determined by the Legislature. Student fees in the base budget plus student fee revenues generated by increases in fee rates

**COLLEGE OF CENTRAL FLORIDA  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

are deducted from the sum of these components to determine the net annual State apportionment to each college.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the College on an annual basis. The College is authorized to receive and expend these resources only upon applying for and receiving an encumbrance authorization from the Florida Department of Education.

The following is a summary of State revenue sources and amounts:

| <u>Source</u>   | <u>Amount</u>        |
|---|----------------------|
| College Program Fund  | \$ 16,363,805        |
| Gross Receipts Tax (Public Education Capital Outlay)        | 3,151,539            |
| Education Enhancement Trust Fund (Lottery)                  | 2,308,614            |
| Bright Futures Scholarship Program                          | 1,875,186            |
| Florida Student Assistance Grants                           | 1,134,079            |
| Motor Vehicle License Tax (Capital Outlay and Debt Service) | 273,600              |
| Restricted Contracts and Grants                             | 131,890              |
| Other State Sources   | 84,180               |
| <b>Total</b>  | <b>\$ 25,322,893</b> |

**12. 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 assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

| <u>Functional Classification</u>   | <u>Amount</u>        |
|------------------------------------|----------------------|
| Instruction                        | \$ 17,416,609        |
| Public Services                    | 500,373              |
| Academic Support                   | 4,616,780            |
| Student Services                   | 4,213,054            |
| Institutional Support              | 9,582,851            |
| Operation and Maintenance of Plant | 10,060,194           |
| Scholarships and Fellowships       | 9,530,294            |
| Depreciation                       | 3,438,292            |
| Auxiliary Enterprises              | 507,741              |
| <b>Total Operating Expenses</b>    | <b>\$ 59,866,188</b> |

**COLLEGE OF CENTRAL FLORIDA**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2010**

**13. COMPONENT UNITS**

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

|   | Central Florida<br>Community<br>College<br>Foundation, Inc.<br>12-31-09 | The Appleton<br>Cultural<br>Center,<br>Inc.<br>12-31-09 | Total                |
|---|---|---|----------------------|
| <b>Condensed Statement of Net Assets</b>  |   |   |                      |
| Assets:   |   |   |                      |
| Current Assets  | \$ 8,393,195  | \$ 198,585  | \$ 8,591,780         |
| Capital Assets, Net   | 21,681,169  |   | 21,681,169           |
| Other Noncurrent Assets   | 41,596,590  | 600,000   | 42,196,590           |
| <b>Total Assets</b>   | <b>71,670,954</b>   | <b>798,585</b>  | <b>72,469,539</b>    |
| Liabilities:  |   |   |                      |
| Current Liabilities   | 960,040   | 1,292   | 961,332              |
| Noncurrent Liabilities  | 3,718,565   |   | 3,718,565            |
| <b>Total Liabilities</b>  | <b>4,678,605</b>  | <b>1,292</b>  | <b>4,679,897</b>     |
| Net Assets:   |   |   |                      |
| Invested in Capital Assets, Net<br>of Related Debt                              | 18,806,169  |   | 18,806,169           |
| Restricted  | 41,838,363  | 797,293   | 42,635,656           |
| Unrestricted  | 6,347,817   |   | 6,347,817            |
| <b>Total Net Assets</b>   | <b>\$ 66,992,349</b>  | <b>\$ 797,293</b>                                       | <b>\$ 67,789,642</b> |
| <b>Condensed Statement of Revenues,<br/>Expenses, and Changes in Net Assets</b> |   |   |                      |
| Operating Revenues  | \$ 4,666,057  | \$  | \$ 4,666,057         |
| Operating Expenses  | (3,249,406)   | (11,500)  | (3,260,906)          |
| <b>Operating Income (Loss)</b>  | <b>1,416,651</b>  | <b>(11,500)</b>   | <b>1,405,151</b>     |
| Net Nonoperating Revenues (Expenses)  | 7,077,040   | (25,692)  | 7,051,348            |
| Other Revenues  | 546,185   |   | 546,185              |
| <b>Increase (Decrease) in Net Assets</b>  | <b>9,039,876</b>  | <b>(37,192)</b>   | <b>9,002,684</b>     |
| Net Assets, Beginning of Year   | 57,952,473  | 834,485   | 58,786,958           |
| <b>Net Assets, End of Year</b>  | <b>\$ 66,992,349</b>  | <b>\$ 797,293</b>                                       | <b>\$ 67,789,642</b> |

**COLLEGE OF CENTRAL FLORIDA  
OTHER REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS -  
OTHER POSTEMPLOYMENT BENEFITS PLAN**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(1)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>[(b-a)/c] |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 7/1/2007                       | \$                                     | \$ 199,834  | \$ 199,834                         | 0%                       | \$ 27,066,143             | 0.74%   |
| 7/1/2009                       | \$                                     | \$ 168,293  | \$ 168,293                         | 0%                       | \$ 29,809,973             | 0.56%   |

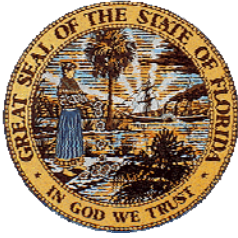
Note: (1) The College's OPEB actuarial valuation used the projected unit credit actuarial method to estimate the unfunded actuarial liabilities.

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**COLLEGE OF CENTRAL FLORIDA  
OTHER REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYEMENT BENEFITS PLAN**

The July 1, 2009, actuarial accrued liability (AAL) of \$168,293 was significantly lower than the July 1, 2007, AAL of \$199,834 as a result of revised participation assumptions, updated claims costs, required retiree contributions, and revised withdrawal and mortality assumptions. These reductions were partially offset by increases due to the expected growth of liabilities over time, demographic changes, and an updated medical trend assumption.



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534  
FAX: 850-488-6975

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

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

We have audited the financial statements of the College of Central Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2010, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to 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. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report on the College's financial statements. For the College of Central Florida Foundation, Inc., 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. The financial statements of The Appleton Cultural Center, Inc., were not audited in accordance with *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free of 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*.

We noted certain matters that we reported to College management in our operational audit report No. 2011-023.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA  
March 14, 2011