

COLLEGE OF CENTRAL FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2013



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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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 or by telephone at (850) 412-2869.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

COLLEGE OF CENTRAL FLORIDA
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EXECUTIVE SUMMARY

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;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements; and
- Taken corrective action for the finding included in our report No. 2013-138.

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, 2013. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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.



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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the College of Central Florida, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the blended and discretely presented component units, as described in note 1 to the financial statements. The financial statements of The Appleton Cultural Center, Inc., a blended component unit, represent less than 1 percent of the assets, net position, and revenues, reported for the College of Central Florida. The financial statements of the discretely presented component unit represent 100 percent of the transactions and account balances of the discretely presented component unit's column. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the blended and the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of 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 discretely presented component unit as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of 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* in considering College of Central Florida's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
February 17, 2014

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, 2013, 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 Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for fiscal years ended June 30, 2013, and June 30, 2012, which includes its blended component unit, The Appleton Cultural Center, Inc., for fiscal years ended December 31, 2012, and December 31, 2011. The MD&A also includes the financial activity of the College of Central Florida Foundation, Inc. (discretely presented component unit), for fiscal years ended December 31, 2012, and December 31, 2011.

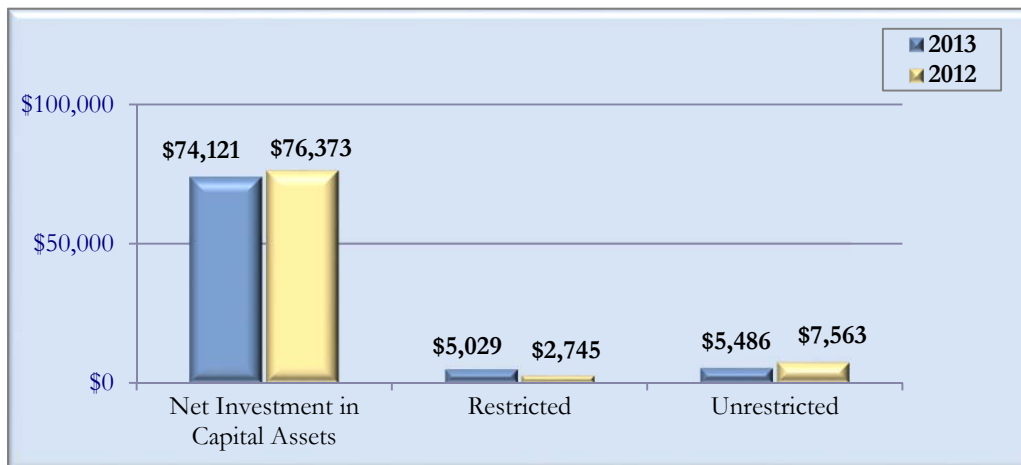
FINANCIAL HIGHLIGHTS

The College’s assets totaled \$92.6 million at June 30, 2013. This balance reflects a \$2.7 million, or 2.8 percent, decrease as compared to the 2011-12 fiscal year, resulting mainly from a decrease of \$2.6 million in depreciable capital assets, net of accumulated depreciation, during the 2012-13 fiscal year. Liabilities decreased by a lesser amount of \$0.6 million, or 7.2 percent, totaling \$7.9 million at June 30, 2013, compared to \$8.5 million at June 30, 2012. As a result, the College’s net position decreased by \$2 million, resulting in a year-end balance of \$84.6 million.

The College’s operating revenues totaled \$12.9 million for the 2012-13 fiscal year, representing a \$1.3 million, or 9.1 percent, decrease as compared to the 2011-12 fiscal year due mainly to decreases in net student tuition and fees of \$1.2 million and in grants and contracts of \$0.3 million. Operating expenses totaled \$60.4 million for the 2012-13 fiscal year, representing a decrease of 7.9 percent as compared to the 2011-12 fiscal year. The decrease in operating expenses was due mainly to a decrease of \$2.9 million in scholarships and waivers, a decrease of \$1.1 million in material and supplies, and a decrease in personnel services of \$0.6 million as compared to the 2011-12 fiscal year.

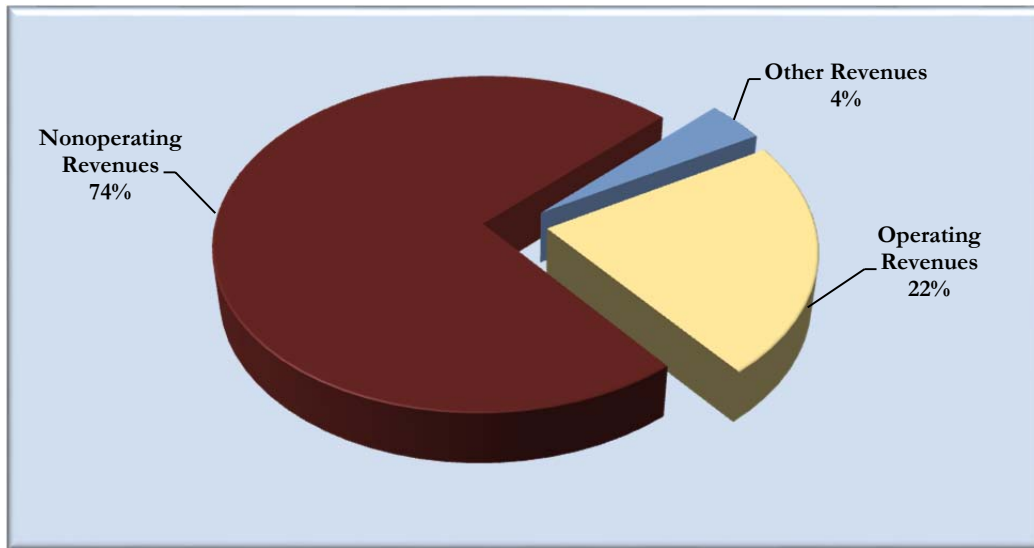
Net position represents the residual interest in the College’s assets after deducting liabilities. The College’s comparative total net position by category for the fiscal years ended June 30, 2013, and 2012, is shown in the following graph:

**Net Position: College
(In Thousands)**



The following chart provides a graphical presentation of College revenues by category for the 2012-13 fiscal year:

Total Revenues: College



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the College’s financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. 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.
- The Appleton Cultural Center, Inc. (Blended Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida. Based on the application of the criteria for determining component units, the Appleton Cultural Center, Inc., is included within the College’s reporting entity as a blended component unit.
- College of Central Florida Foundation, Inc. (Discretely Presented Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida.

THE STATEMENT OF NET POSITION

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

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

**Condensed Statement of Net Position at
(In Thousands)**

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Assets				
Current Assets	\$ 10,181	\$ 10,322	\$ 3,921	\$ 4,486
Capital Assets, Net	76,114	78,711	21,365	21,431
Other Noncurrent Assets	6,259	6,184	56,291	50,875
Total Assets	<u>92,554</u>	<u>95,217</u>	<u>81,577</u>	<u>76,792</u>
Liabilities				
Current Liabilities	3,188	3,260	939	1,033
Noncurrent Liabilities	4,730	5,276	2,949	3,316
Total Liabilities	<u>7,918</u>	<u>8,536</u>	<u>3,888</u>	<u>4,349</u>
Net Position				
Net Investment in Capital Assets	74,121	76,373	19,346	19,041
Restricted	5,029	2,745	50,363	46,237
Unrestricted	5,486	7,563	7,980	7,165
Total Net Position	<u>\$ 84,636</u>	<u>\$ 86,681</u>	<u>\$ 77,689</u>	<u>\$ 72,443</u>
Change in Net Position	<u>\$ (2,045)</u>	-2.4%	<u>\$ 5,246</u>	7.2%

The decrease in the College's net position was primarily from a decrease of \$2.6 million in depreciable and nondepreciable capital assets.

THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

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

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

	College		Component Unit	
	06-30-13	06-30-12	12-31-12	12-31-11
Operating Revenues	\$ 12,881	\$ 14,168	\$ 1,972	\$ 1,646
Less, Operating Expenses	60,359	65,540	3,273	3,700
Operating Loss	(47,478)	(51,372)	(1,301)	(2,054)
Net Nonoperating Revenues	42,330	45,053	6,913	691
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(5,148)	(6,319)	5,612	(1,363)
Other Revenues, Expenses, Gains, or Losses	2,272	2,738	558	946
Net Increase (Decrease) In Net Position	(2,876)	(3,581)	6,170	(417)
Net Position, Beginning of Year	86,681	90,262	72,443	72,860
Adjustments to Beginning Net Position (1)	831		(924)	
Net Position, Beginning of Year, as Restated	87,512	90,262	71,519	72,860
Net Position, End of Year	<u>\$ 84,636</u>	<u>\$ 86,681</u>	<u>\$ 77,689</u>	<u>\$ 72,443</u>

Note: (1) Adjustments reflect the change in reporting entity of The Appleton Cultural Center, Inc., from a discretely presented component unit to a blended component unit, and implementation of GASB Statement No. 65 by the Foundation (discretely presented component unit). See note 2 to the financial statements.

Operating Revenues

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

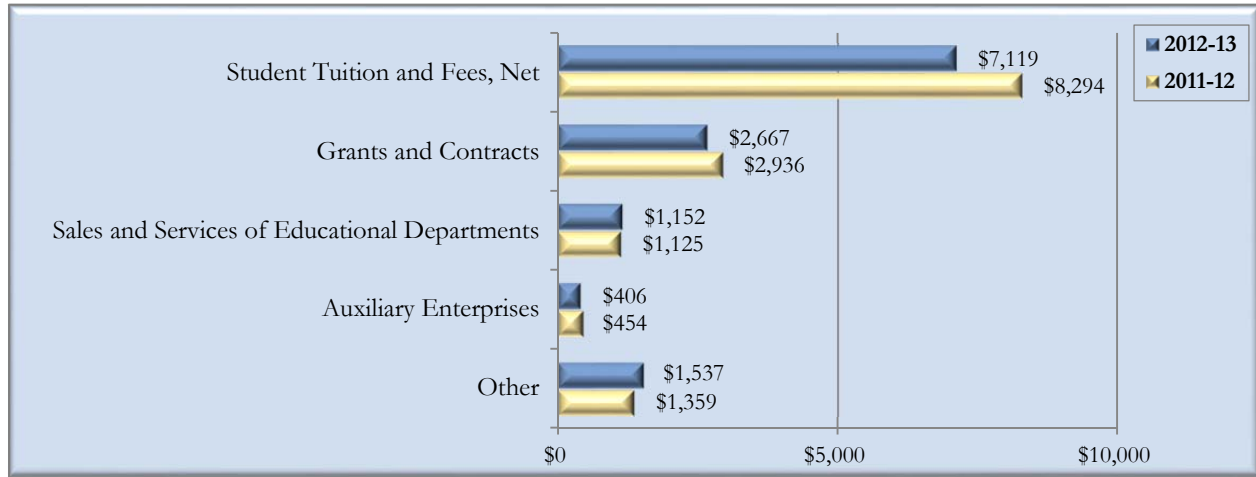
The following summarizes the operating revenues for the College and its discretely presented component unit by source that were used to fund operating activities for the respective fiscal years:

**Operating Revenues
For the Fiscal Years Ended
(In Thousands)**

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Net Tuition and Fees	\$ 7,119	\$ 8,294	\$	\$
Grants and Contracts	2,667	2,936	620	429
Sales and Services of Educational Departments	1,152	1,125		
Auxiliary Enterprises	406	454		
Other	1,537	1,359	1,352	1,217
Total Operating Revenues	<u>\$ 12,881</u>	<u>\$ 14,168</u>	<u>\$ 1,972</u>	<u>\$ 1,646</u>

The following chart presents the College’s operating revenues for the 2012-13 and 2011-12 fiscal years:

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



College operating revenue changes were the result of student tuition and fees, net of scholarship allowances, decreasing \$1.2 million, or 14.2 percent, compared to the 2011-12 fiscal year. This was due to decline in student enrollments, which resulted in a decrease of \$0.8 million in student tuition and fees and an increase in scholarship allowance of \$0.4 million.

Operating Expenses

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

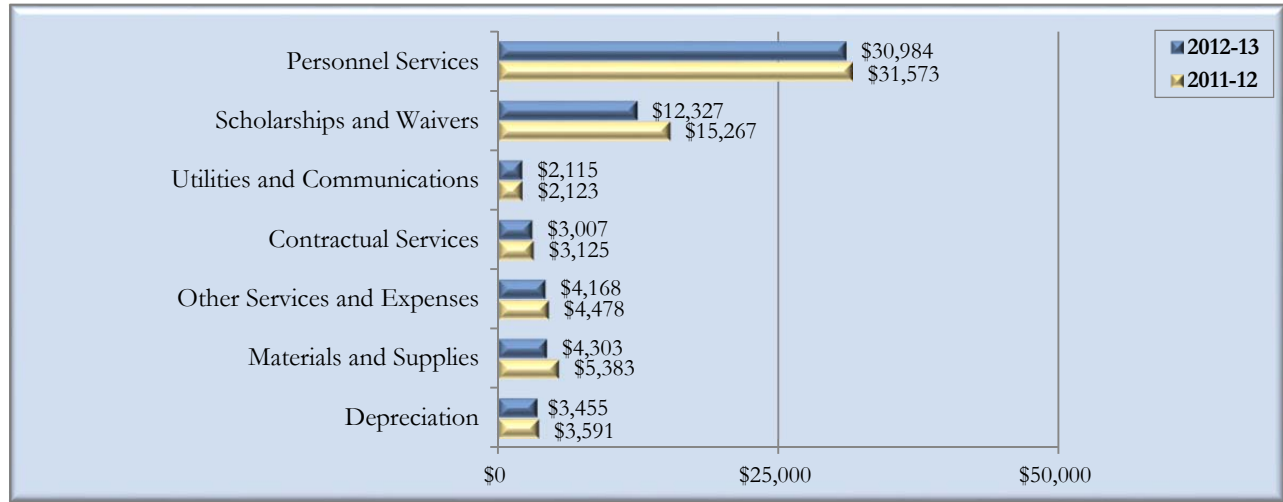
The following summarizes operating expenses by natural classification for the College and its discretely presented component unit for the respective fiscal years ended:

**Operating Expenses
For the Fiscal Years Ended
(In Thousands)**

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Personnel Services	\$ 30,984	\$ 31,573	\$	\$
Scholarships and Waivers	12,327	15,267	758	840
Utilities and Communications	2,115	2,123		
Contractual Services	3,007	3,125	332	424
Other Services and Expenses	4,168	4,478	1,845	2,087
Materials and Supplies	4,303	5,383	177	173
Depreciation	3,455	3,591	161	176
Total Operating Expenses	\$ 60,359	\$ 65,540	\$ 3,273	\$ 3,700

The following chart presents the College’s operating expenses for the 2012-13 and 2011-12 fiscal years:

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



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

- Personnel services decreased by \$0.6 million when compared to the 2011-12 fiscal year due mainly to the elimination of positions during the 2012-13 fiscal year to accommodate revenue shortfalls stemming from declining student enrollment. The College eliminated 17 vacant full-time positions and 11 full-time positions were discontinued due to the closing of two certificate programs and reorganization of administrative departments to improve efficiencies. Reductions were also made to the College’s budget for part-time staff and adjunct professor positions.
- Scholarship and waivers decreased \$2.9 million when compared to the 2011-12 fiscal year. The decrease is attributed to the reduced demand for student financial aid in conjunction with the decline in student enrollment for the 2012-13 fiscal year.
- Material and supplies as well as other services and expenses decreased by \$1.1 million and \$0.3 million, respectively, compared to the 2011-12 fiscal year, to accommodate revenue shortfalls stemming from the decline in student enrollment.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College’s nonoperating revenues and expenses for the 2012-13 and 2011-12 fiscal years:

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

	<u>2012-13</u>	<u>2011-12</u>
State Noncapital Appropriations	\$ 19,790	\$ 19,722
Federal and State Student Financial Aid	22,334	25,145
Investment Income	120	135
Net Gain on Investments	50	
Other Nonoperating Revenues	175	181
Interest on Capital Asset-Related Debt	<u>(139)</u>	<u>(130)</u>
Net Nonoperating Revenues	<u>\$ 42,330</u>	<u>\$ 45,053</u>

Changes in the College’s nonoperating revenues and expenses were the result of Federal and State student financial aid decreasing \$2.8 million, or 11.2 percent, due mainly to the decline in student enrollment during the 2012-13 fiscal year.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College’s other revenues, expenses, gains, or losses for the 2012-13 and 2011-12 fiscal years:

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

	<u>2012-13</u>	<u>2011-12</u>
State Capital Appropriations	\$ 372	\$ 1,058
Capital Grants, Contracts, Gifts, and Fees	<u>1,900</u>	<u>1,680</u>
Total	<u>\$ 2,272</u>	<u>\$ 2,738</u>

Changes in other revenues, expenses, gains, or losses were the result of State capital appropriations decreasing \$0.7 million, or 64.8 percent, from the 2011-12 fiscal year due to reduction in Public Education Capital Outlay allocations.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the College’s financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the College’s ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the College. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections. The 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.

The following summarizes the College's cash flows for the 2012-13 and 2011-12 fiscal years:

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

	<u>2012-13</u>	<u>2011-12</u>
Cash Provided (Used) by:		
Operating Activities	\$ (44,336)	\$ (45,907)
Noncapital Financing Activities	42,313	44,971
Capital and Related Financing Activities	799	691
Investing Activities	<u>235</u>	<u>163</u>
Net Decrease in Cash and Cash Equivalents	(989)	(82)
Cash and Cash Equivalents, Beginning of Year	13,254	13,336
Adjustment to Beginning Cash and Cash Equivalents (1)	30	
Cash and Cash Equivalents, Beginning of Year, as Restated	<u>13,284</u>	<u>13,336</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,295</u>	<u>\$ 13,254</u>

Note: (1) Adjustment reflects increase in beginning cash and cash equivalents related to the change in reporting entity of The Appleton Cultural Center, Inc., from a discretely presented component unit to a blended component unit.

Major sources of funds came from Federal and State student financial aid (\$22.3 million), Federal Direct Student Loan program receipts (\$21.8 million), State noncapital appropriations (\$19.8 million), net student tuition and fees (\$7 million), and grants and contracts (\$2.7 million). Major uses of funds were for payments to employees (\$25.9 million), disbursements to students for Federal Direct Student Loan program (\$21.8 million), payments for scholarships (\$12.4 million), payments to suppliers (\$11.4 million), and payments for employee benefits (\$5.1 million).

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

- The College's cash outflows from operating activities decreased \$1.6 million due to decrease in student enrollment effecting tuition and fees with elimination of faculty and staff positions, and the decrease in purchasing material and supplies as well as other services and expenses.
- The College's cash inflows from noncapital financing activities decreased \$2.7 million due mainly to a decrease in Federal and State student financial aid compared to the 2011-12 fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2013, the College had \$130.4 million in capital assets, less accumulated depreciation of \$54.3 million, for net capital assets of \$76.1 million. Depreciation charges for the current fiscal year totaled \$3.5 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

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

<u>Capital Assets</u>	<u>2013</u>	<u>2012</u>
Land	\$ 14,254	\$ 14,254
Construction in Progress	109	
Buildings	56,497	58,731
Other Structures and Improvements	3,038	3,152
Furniture, Machinery, and Equipment	914	1,142
Assets Under Capital Lease	<u>1,302</u>	<u>1,432</u>
Capital Assets, Net	<u>\$ 76,114</u>	<u>\$ 78,711</u>

CAPITAL EXPENSES AND COMMITMENTS

Capital expenses through June 30, 2013, were incurred on the following projects:

- The College had four heating, ventilation, and air conditioning (HVAC) renovation projects for a total of \$788,587, of which \$432,177 was paid as of June 30, 2013.
- The College had a construction project in 2012-13 fiscal year for the Appleton Museum stairs. The total committed for this construction project was \$316,254, of which \$108,764 had been paid as of June 30, 2013.

The following table summarizes the College’s construction commitment at June 30, 2013:

	<u>Amount (In Thousands)</u>
Total Committed	\$ 316,254
Completed to Date	<u>(108,764)</u>
Balance Committed	<u>\$ 207,490</u>

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

DEBT ADMINISTRATION

As of June 30, 2013, the College had \$2 million in long-term debt outstanding. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30, 2013, and June 30, 2012:

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

	<u>2013</u>	<u>2012</u>
SBE Capital Outlay Bonds	\$ 250	\$ 345
Capital Lease Payable	<u>1,743</u>	<u>1,992</u>
Total	<u>\$ 1,993</u>	<u>\$ 2,337</u>

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2012-13 fiscal year, there were no bond sales, debt repayments totaled \$95 thousand, and capital lease principal balance decreased \$249 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's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, a modest increase in State funding is anticipated in the 2013-14 fiscal year. The Board of Trustees approved a budget with no increase in tuition and student fees for the 2013-14 fiscal year. The College has signed up to offer a four-year bachelor's degree for \$10,000 beginning Fall term 2013 as part of the Governor's push to make certain degrees more affordable.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, financial statements and notes thereto, or requests for additional financial information should be addressed to Francis J. Mazur III, MS-CIS, CPA, Vice President of Administration and Finance, College of Central Florida, 3001 SW College Road, Ocala, Florida 34473-4415.

BASIC FINANCIAL STATEMENTS

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION
June 30, 2013**

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 7,324,563	\$ 3,646,815
Restricted Cash and Cash Equivalents	622,657	
Restricted Investments	218,317	
Accounts Receivable, Net	1,159,536	
Due from Other Governmental Agencies	411,966	
Due from Component Unit	68,964	
Inventories	36,969	
Prepaid Expenses	328,308	38,938
Other Assets	10,000	235,101
Total Current Assets	10,181,280	3,920,854
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	4,347,341	799,818
Investments	120,641	
Restricted Investments	10,558	
Endowed Investments	600,000	53,898,779
Land and Property Held for Investment		1,066,771
Due from Component Unit	1,180,343	
Depreciable Capital Assets, Net	61,750,685	3,907,015
Nondepreciable Capital Assets	14,363,121	17,458,905
Other Assets		525,604
Total Noncurrent Assets	82,372,689	77,656,892
TOTAL ASSETS	92,553,969	81,577,746
LIABILITIES		
Current Liabilities:		
Accounts Payable	589,253	99,699
Accrued Interest Payable		16,306
Salary and Payroll Taxes Payable	1,253,783	
Retainage Payable	4,715	
Due to Other Governmental Agencies	237,049	
Due to College		294,392
Unearned Revenue	54,060	51,185
Deposits Held for Others	330,075	61,203
Line of Credit Payable		10,738
Long-Term Liabilities - Current Portion:		
Bonds Payable	100,000	389,996
Capital Lease Payable	401,226	
Compensated Absences Payable	218,167	
Other Long-Term Liabilities		15,962
Total Current Liabilities	3,188,328	939,481

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2013**

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	\$ 150,000	\$ 1,630,006
Loan Payable to College		1,180,343
Capital Lease Payable	1,341,724	
Compensated Absences Payable	3,038,054	
Other Postemployment Benefits Payable	199,841	
Other Long-Term Liabilities		138,427
Total Noncurrent Liabilities	4,729,619	2,948,776
TOTAL LIABILITIES	7,917,947	3,888,257
NET POSITION		
Net Investment in Capital Assets	74,120,856	19,345,918
Restricted:		
Nonexpendable:		
Endowment	600,000	46,987,846
Expendable:		
Endowment		3,375,584
Grants and Loans	711,193	
Scholarships	205,165	
Capital Projects	3,264,529	
Debt Service	10,558	
Other	237,484	
Unrestricted	5,486,237	7,980,141
TOTAL NET POSITION	\$ 84,636,022	\$ 77,689,489

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 POSITION
For the Fiscal Year Ended June 30, 2013

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$11,557,634	\$ 7,119,484	\$
Federal Grants and Contracts	2,403,492	
State and Local Grants and Contracts	88,581	
Nongovernmental Grants and Contracts	174,517	619,601
Sales and Services of Educational Departments	1,151,731	
Auxiliary Enterprises	405,878	
Other Operating Revenues	1,537,386	1,352,460
Total Operating Revenues	12,881,069	1,972,061
EXPENSES		
Operating Expenses:		
Personnel Services	30,984,512	
Scholarships and Waivers	12,327,277	757,737
Utilities and Communications	2,114,752	
Contractual Services	3,006,888	332,251
Other Services and Expenses	4,168,360	1,845,008
Materials and Supplies	4,302,644	176,663
Depreciation	3,455,014	161,012
Total Operating Expenses	60,359,447	3,272,671
Operating Loss	(47,478,378)	(1,300,610)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	19,790,038	
Federal and State Student Financial Aid	22,334,281	
Investment Income	119,665	6,620,516
Net Gain on Investments	50,232	
Other Nonoperating Revenues	175,292	429,675
Interest on Capital Asset-Related Debt	(139,083)	(137,728)
Net Nonoperating Revenues	42,330,425	6,912,463
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(5,147,953)	5,611,853
State Capital Appropriations	372,327	
Capital Grants, Contracts, Gifts, and Fees	1,899,485	
Additions to Endowments		558,479
Total Other Revenues	2,271,812	558,479
Increase (Decrease) in Net Position	(2,876,141)	6,170,332
Net Position, Beginning of Year	86,680,784	72,442,544
Adjustment to Beginning Net Position	831,379	(923,387)
Net Position, Beginning of Year, as Restated	87,512,163	71,519,157
Net Position, End of Year	\$ 84,636,022	\$ 77,689,489

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, 2013

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 7,031,364
Grants and Contracts	2,674,024
Payments to Suppliers	(11,449,660)
Payments for Utilities and Communications	(2,114,752)
Payments to Employees	(25,857,500)
Payments for Employee Benefits	(5,068,561)
Payments for Scholarships	(12,327,277)
Auxiliary Enterprises	405,878
Sales and Service of Educational Departments	1,151,731
Other Receipts	1,218,136
	(44,336,617)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	19,790,038
Federal and State Student Financial Aid	22,334,281
Federal Direct Loan Program Receipts	21,825,550
Federal Direct Loan Program Disbursements	(21,825,550)
Other Nonoperating Receipts	188,821
	42,313,140
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	232,000
Capital Grants and Gifts	1,899,485
Proceeds from Sale of Capital Assets	4,604
Purchases of Capital Assets	(853,581)
Principal Paid on Capital Debt and Leases	(421,272)
Interest Paid on Capital Debt and Leases	(61,891)
	799,345
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of Investments	77,624
Investment Income	157,118
	234,742
Net Decrease in Cash and Cash Equivalents	(989,390)
Cash and Cash Equivalents, Beginning of Year	13,254,296
Adjustment to Beginning Cash and Cash Equivalents	29,655
	13,283,951
Cash and Cash Equivalents, End of Year	\$ 12,294,561

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2013**

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (47,478,378)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,455,014
Changes in Assets and Liabilities:	
Receivables, Net	29,284
Due from Other Governmental Agencies	(4,898)
Inventories	(4,936)
Prepaid Expenses	(31,696)
Accounts Payable	19,317
Salaries and Payroll Taxes Payable	(39,120)
Unearned Revenue	(27,002)
Deposits Held for Others	(351,773)
Compensated Absences Payable	61,375
Other Postemployment Benefits Payable	36,196
	\$ (44,336,617)
NET CASH USED BY OPERATING ACTIVITIES	

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND
CAPITAL FINANCING ACTIVITIES**

Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 12,779
The College refinanced its capital lease, including refinancing interest owed. This is the amount expensed as interest on the statement of revenues, expenses, and changes in net position, but refinanced as principal, which is not a cash transaction for the statement of cash flows.	\$ 77,192

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, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of the College of Central Florida, 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 (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the 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. 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.

Blended Component Unit. Although it is legally separate from the College, The Appleton Cultural Center, Inc. (Center), is included within the College's reporting entity as a blended component unit because management of the College has operational responsibility of the Center. The main purpose of the component unit is to provide financial support to the Appleton Museum which is a department of the primary government.

The Center was 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 financial data blended within the College's accompanying financial statements was derived from the Center's audited financial statements for the fiscal year ended December 31, 2012. Condensed financial statements for the College's blended component unit are shown in a subsequent note.

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

The Foundation was audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 31, 2012.

COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

Basis of Presentation. The College's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the College with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public colleges various reporting options. The College has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

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 follows GASB standards of accounting and financial reporting.

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, and follow GASB standards of accounting and financial reporting.

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

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

COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 a nonoperating expense.

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the 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. Under this definition, the College considers amounts invested in the State Treasury Special Purpose Investment Account (SPIA) and State Board of Administration (SBA) Florida PRIME investment pool to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2013, the College reported as cash equivalents at fair value \$3,084,201 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.65 years, and had a fair value factor of 0.9975 at June 30, 2013. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2013, the College reported as cash equivalents \$1,110,238.84 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

external investment pool, as of June 30, 2013, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 40 days as of June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

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

Custodial Credit Risk. Cash deposits in excess of Federal Depositors Insurance Corporation (FDIC) limits at individual financial institutions and cash held in money market accounts are uninsured. Management does not consider this risk significant. Certain investments are held in brokerage house investment accounts that are not insured by the FDIC. The total amount of cash and cash equivalents were held by depositories and the bank balances amounted to \$3,580,829, of which \$2,453,756 was insured and \$1,127,073 was uninsured at December 31, 2012.

Capital Assets - College. College capital assets consist of land; construction in progress; buildings; other structures and improvements; furniture, machinery, and equipment; and assets under capital lease. These assets are capitalized and recorded at cost at the date of acquisition or at 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, beginning with the 2012-13 fiscal year, increased its capitalization threshold for buildings and other structures and improvements from \$25,000 to \$50,000. 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 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, 2012, all property and equipment, totaling \$4,592, is fully depreciated.

COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Capital Assets – Discretely Presented Component Unit. 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 \$2,196,540. 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.

Non-current 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.

2. ADJUSTMENTS TO BEGINNING NET POSITION

In the prior fiscal year, The Appleton Cultural Center, Inc. (Center), was reported as a discretely presented component unit. For the 2012-13 fiscal year, the College determined that the Center should be reported as a blended component unit because management of the College has operational responsibility of the Center. This change in reporting entity had the effect of increasing beginning net position of the College by \$831,379 and decreasing beginning net position of the discretely presented component unit by \$831,379.

Additionally, the Foundation (discretely presented component unit) implemented GASB Statement No. 65 during the 2012 fiscal year, and the implementation resulted in the write-off of bond issuance costs and the effect of reducing beginning net position by \$92,008.

3. 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 (SBA); 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 (SBE) Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments.

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

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

The College’s investments at June 30, 2013, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 120,641
State Board of Administration Debt Service Accounts	10,558
Total College Investments	\$ 131,199

State Board of Administration Fund B Surplus Funds Trust Fund. The Fund B Surplus Funds Trust Fund (Fund B) is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, and 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 on December 4, 2007. One hundred percent of such distributions from Fund B are available as liquid balance within the Florida PRIME investment pool.

At June 30, 2013, the College reported investments at fair value of \$120,641 in Fund B. The College’s investments in Fund B are accounted for as a fluctuating net position value pool, with a fair value factor of 1.11845939 at June 30, 2013. The weighted-average life (WAL) of Fund B at June 30, 2013, was 3.98 years. A portfolio’s WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2013. 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 totaling \$10,558 at June 30, 2013, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College’s investments consist of United States Treasury securities, with maturity dates of 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.

The Appleton Cultural Center, Inc. Investments of the Center (blended component unit) totaling \$818,317 are carried at market value and consist of mutual funds invested in United States Government securities. A \$600,000 nonexpendable principal balance is maintained in the Center’s Fine Arts Endowment Program Fund while the remaining \$218,317 current portion is classified as restricted.

Discretely Presented Component Unit

Investments of the Foundation include endowed investments of \$52,611,794 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, nonendowed assets

COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

held for various temporarily restricted purposes totaling \$1,286,985 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 has a separate investment policy pertaining to the Appleton Museum Family Endowment and the Edith Marie Appleton Endowment, which are managed and governed by a trust company with oversight by the Appleton family.

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

Investment	Weighted-Average Maturity or Duration (Years)	Credit Quality Rating	Fair Value
Appleton Museum Family Endowment:			
Government/Corporate Bonds	6.4	Aa	\$ 2,296,313
TIPS	3.2	Aaa	376,414
High Yield Bonds	4.6	Unrated	442,869
Emerging Markets Debt	7.5	Unrated	240,964
Equities	(1)	(1)	7,555,252
Global Real Estate	(1)	(1)	438,251
Commodities	(1)	(1)	911,889
Total Appleton Museum Family Endowment			<u>12,261,952</u>
Edith Marie Appleton Endowment:			
Government/Corporate Bonds	6.4	Aa	691,583
TIPS	3.2	Aaa	113,363
High Yield Bonds	4.6	Unrated	133,362
Emerging Markets Debt	7.5	Unrated	72,526
Equities	(1)	(1)	2,275,362
Global Real Estate	(1)	(1)	131,985
Commodities	(1)	(1)	274,565
Total Edith Marie Appleton Endowment			<u>3,692,746</u>
Other Endowed Investments:			
Investment Grade Fixed Income	4.47	Aa	4,237,218
Non-Investment Grade Fixed Income	3.61	B	2,529,020
Investment Bonds	5.39	BBB	1,852,458
Equities	(1)	(1)	28,038,400
Total Other Endowed Investments			<u>36,657,096</u>
Total Endowment Investments			<u>\$ 52,611,794</u>

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 and the Edith Marie Appleton Endowment, and the duration method is used for the other endowed investments.

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Credit Risk: Credit risk is 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.

- Appleton Museum Family Endowment and Edith Marie 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 managed by SEI Investments Management Corporation and are held in counterparty accounts as custodian for the Foundation.

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 Marie Appleton Endowment, or other endowed investment portfolios.

Foreign Currency Risk: Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The Foundation investment risk exposure is as follows:

- Appleton Museum Family Endowment and Edith Marie Appleton Endowment – Both portfolios include exposure to international equity securities. Fluctuating exchange rates will have an impact on the performance of those investments. No investments are completed with the sole intent to profit from changes in foreign currency exchange rates.
- Other Endowed Investments – The investments managed by SEI Investments Management Corporation are not exposed to this type of risk.

4. ACCOUNTS RECEIVABLE

Accounts receivable primarily consists of student fee deferrals and are reported net of an \$83,904 allowance for doubtful accounts.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$256,565 due from the Federal government for reimbursement of grant expenditures and \$140,327 due from the State for Public Education Capital Outlay allocations for construction of College facilities.

6. DUE FROM COMPONENT UNIT

The College's financial statements are reported for the fiscal year ended June 30, 2013, and the financial statements of the Foundation (discretely presented component unit) are reported for the fiscal year ended December 31, 2012. Accordingly, on the statement of net position, the amount (current) due from component

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unit of \$68,964 reported by the College does not agree with the amount (current) due to the College reported by the component unit of \$294,392. However, on the statement of net position, the amount (noncurrent) due from component unit reported by the College of \$1,180,343, which represents advances provided to the Foundation by the College pursuant to a limited pledge agreement as explained in note 8, agrees with the amount (noncurrent) loan payable to the College reported by the Foundation of \$1,180,343. This is because any advances to the Foundation were completed before December 31, 2012.

7. CAPITAL ASSETS

Capital assets activity for College for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 14,254,357	\$	\$	\$	\$ 14,254,357
Construction in Progress			108,764		108,764
Total Nondepreciable Capital Assets	\$ 14,254,357	\$	\$ 108,764	\$	\$ 14,363,121
Depreciable Capital Assets:					
Buildings	\$ 96,011,579	\$	\$	\$	\$ 96,011,579
Other Structures and Improvements	9,975,192		432,177		10,407,369
Furniture, Machinery, and Equipment	6,944,230	4,592	317,356	225,540	7,040,638
Assets Under Capital Lease	2,604,386				2,604,386
Total Depreciable Capital Assets	115,535,387	4,592	749,533	225,540	116,063,972
Less, Accumulated Depreciation:					
Buildings	37,280,823		2,234,186		39,515,009
Other Structures and Improvements	6,822,730		546,518		7,369,248
Furniture, Machinery, and Equipment	5,803,695	4,592	544,091	225,540	6,126,838
Assets Under Capital Lease	1,171,973		130,219		1,302,192
Total Accumulated Depreciation	51,079,221	4,592	3,455,014	225,540	54,313,287
Total Depreciable Capital Assets, Net	\$ 64,456,166	\$	\$ (2,705,481)	\$	\$ 61,750,685

Note: (1) Adjustments were made to include the capital assets and accumulated depreciation of The Appleton Cultural Center, Inc., see note 2.

Capital asset activity of the Foundation (discretely presented component unit) for the fiscal year ended December 31, 2012, is shown below:

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Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 459,640	\$	\$	\$ 459,640
Works of Art and Historical Treasures	16,903,200	96,065		16,999,265
Total Nondepreciable Capital Assets	\$ 17,362,840	\$ 96,065	\$	\$ 17,458,905
Depreciable Capital Assets:				
Buildings	\$ 6,063,065	\$	\$	\$ 6,063,065
Furniture, Machinery, and Equipment	45,082			45,082
Total Depreciable Capital Assets	6,108,147			6,108,147
Less, Accumulated Depreciation:				
Buildings	2,005,121	158,580		2,163,701
Furniture, Machinery, and Equipment	34,999	2,432		37,431
Total Accumulated Depreciation	2,040,120	161,012		2,201,132
Total Depreciable Capital Assets, Net	\$ 4,068,027	\$ (161,012)	\$	\$ 3,907,015

8. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2013, 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, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 345,000	\$	\$ 95,000	\$ 250,000	\$ 100,000
Capital Lease Payable	1,992,030	77,192	326,272	1,742,950	401,226
Compensated Absences Payable	3,194,846	318,878	257,503	3,256,221	218,167
Other Postemployment Benefits Payable	163,645	53,367	17,171	199,841	
Total Long-Term Liabilities	\$ 5,695,521	\$ 449,437	\$ 695,946	\$ 5,449,012	\$ 719,393

Long-term liabilities of the Foundation (discretely presented 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, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Industrial Revenue Bonds					
Student Housing Bonds	\$ 725,000	\$	\$ 275,000	\$ 450,000	\$ 290,000
Enterprise Center Revenue Bonds	1,665,000		94,998	1,570,002	99,996
Loan Payable to College	1,130,591	49,752		1,180,343	
Other Long-Term Liabilities	189,816		35,427	154,389	15,962
Total Long-Term Liabilities	\$ 3,710,407	\$ 49,752	\$ 405,425	\$ 3,354,734	\$ 405,958

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Bonds Payable - College. The SBE issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College’s portion of the State-assessed motor vehicle license tax and by the State’s full faith and credit. The SBE and the SBA administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2013:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2005A	\$ 155,000	5	2017
Series 2011A	95,000	4 - 5	2015
Total	\$ 250,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
2014	\$ 100,000	\$ 12,500	\$ 112,500
2015	85,000	7,500	92,500
2016	45,000	3,250	48,250
2017	20,000	1,000	21,000
Total	\$ 250,000	\$ 24,250	\$ 274,250

Bonds Payable - Foundation. Bonds payable of the Foundation (discretely presented component unit) at December 31, 2012, consists 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 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 December 31	Industrial Revenue Bonds, Series 1994		
	Principal	Interest	Total
2013	\$ 290,000	\$ 18,088	\$ 308,088
2014	160,000	3,808	163,808
Total	\$ 450,000	\$ 21,896	\$ 471,896

- Enterprise Center Revenue Bonds, Series 2003A1. In May 2003, the Foundation issued \$2 million tax-exempt Industrial Development Revenue Bonds, Series 2003A1, through the Florida Development

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Finance Corporation to construct a 25,400 square foot office building known as the Enterprise Center, for lease on the Ocala Campus of the College. The bonds are secured by a first mortgage on real property, first lien on personal property, and assignment of rents, contracts, and leases. The interest rate is fixed at 4.125 percent annually through 2015 and may be adjusted for each subsequent five-year period through June 2, 2023. Annual requirements to amortize the Enterprise Center Revenue Bonds, Series 2003A1, are as follows:

Fiscal Year Ending December 31	Enterprise Center Revenue Bonds, Series 2003A1		
	Principal	Interest	Total
2013	\$ 99,996	\$ 63,743	\$ 163,739
2014	105,000	59,517	164,517
2015	115,002	54,934	169,936
2016	130,002	49,888	179,890
2017	145,002	44,111	189,113
2018-2022	874,998	118,347	993,345
2023	100,002	1,217	101,219
Total	\$ 1,570,002	\$ 391,757	\$ 1,961,759

Loan Payable to College - Foundation. On January 1, 1994, the College entered into a limited pledge agreement with the Foundation (discretely presented 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 auxiliary 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 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 cost associated with the student housing facility. During the Foundation’s fiscal year ended December 31, 2012, the payable to the College was increased \$49,752 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. During the 2012-13 fiscal year, the College refinanced the lease at a lower interest rate. The stated interest rate on the new lease is 1.34 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2013, are as follows:

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Fiscal Year Ending June 30	Amount
2014	\$ 422,123
2015	422,123
2016	422,123
2017	422,123
2018	105,531
Total Minimum Payments	1,794,023
Less, Amount Representing Interest	51,073
Present Value of Minimum Payments	\$ 1,742,950

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2013, the estimated liability for compensated absences, which includes the College’s share of the Florida Retirement System and FICA contributions, totaled \$3,256,221. The current portion of the compensated absences liability, \$218,167, 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, 2013, compensated absences balance to determine the current portion.

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

Plan Description. The College contributes to an agent, multiple employer defined-benefit plan administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College’s healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the 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,

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and the Plan is financed on a pay as you go basis. For the 2012-13 fiscal year, 57 retirees received postemployment healthcare benefits, and 52 retirees received postemployment life insurance benefits. The College provided required contributions of \$17,171 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$372,716, which represents 1.8 percent of covered payroll.

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

Description	Amount
Normal Cost (Service Cost for One Year)	\$ 41,457
Amortization of Unfunded Actuarial Accrued Liability	10,819
Annual Required Contribution	52,276
Interest on Net OPEB Obligation	6,546
Adjustment to Annual Required Contribution	(5,455)
Annual OPEB Cost (Expense)	53,367
Contribution Toward the OPEB Cost	(17,171)
Increase in Net OPEB Obligation	36,196
Net OPEB Obligation, Beginning of Year	163,645
Net OPEB Obligation, End of Year	\$ 199,841

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, 2013, and for the two preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	\$ 21,566	61.7%	\$ 106,316
2011-12	52,985	(8.2)%	163,645
2012-13	53,367	32.2%	199,841

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$324,567, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$324,567 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$20,495,180 for the 2012-13 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1.58 percent.

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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 the 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.

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, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2013, and the College's 2012-13 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, an inflation rate of 3 percent per year, and an annual healthcare cost trend rate of 9.5 percent pre-Medicare and 7.5 percent Medicare for the 2012-13 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 6 years pre-Medicare and 5 years Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2013, was 24 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 the 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. The 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), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at

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age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service for employer contributions and vest fully and immediately for employee contributions.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Senior Management Service	3.00	6.30
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	5.44
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 0.03 percent for administrative costs of the Investment Plan.

(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 including employee contributions for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$1,684,118, \$1,172,108, and \$1,399,826, respectively, which were equal to the required contributions for each fiscal year.

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There were 109 College participants in the Investment Plan during the 2012-13 fiscal year. The College’s contributions including employee contributions to the Investment Plan totaled \$229,566, which was equal to the required contribution for the 2012-13 fiscal year.

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 eight or more years.

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes, on behalf of the participant, 5.64 percent of the participant’s salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee’s salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant’s annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 15 College participants during the 2012-13 fiscal year. The College’s contributions to the Program totaled \$64,629 and employee contributions totaled \$34,377 for the 2012-13 fiscal year.

10. CONSTRUCTION COMMITMENTS

The College’s major construction commitment at June 30, 2013, is as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Appleton Museum Stairs	\$ 316,254	\$ 108,764	\$ 207,490

11. 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)

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and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$90 million to February 28, 2013, and up to \$125 million from March 1, 2013. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers’ compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 17,729,868
Academic Support	4,208,915
Student Services	5,472,674
Institutional Support	10,321,068
Operation and Maintenance of Plant	6,285,564
Scholarships and Waivers	12,313,618
Depreciation	3,455,014
Auxiliary Enterprises	<u>572,726</u>
Total Operating Expenses	<u>\$ 60,359,447</u>

13. BLENDED COMPONENT UNIT

The College has one blended component unit as discussed in note 1. The following financial information is from the most recently available audited financial statements for the component unit:

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Condensed Statement of Net Position

	Blended Component Unit The Appleton Cultural Center, Inc. 12-31-12	College 6-30-13	Total Primary Government
Assets:			
Current Assets	\$ 247,975	\$ 9,933,305	\$ 10,181,280
Capital Assets, Net		76,113,806	76,113,806
Other Noncurrent Assets	600,000	5,658,883	6,258,883
Total Assets	847,975	91,705,994	92,553,969
Liabilities:			
Current Liabilities	10,491	3,177,837	3,188,328
Noncurrent Liabilities		4,729,619	4,729,619
Total Liabilities	10,491	7,907,456	7,917,947
Net Position:			
Net Investment in Capital Assets		74,120,856	74,120,856
Restricted - Nonexpendable	237,484	362,516	600,000
Restricted - Expendable		4,428,929	4,428,929
Unrestricted	600,000	4,886,237	5,486,237
Total Net Position	\$ 837,484	\$ 83,798,538	\$ 84,636,022

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

	Blended Component Unit The Appleton Cultural Center, Inc. 12-31-12	College 6-30-13	Total Primary Government
Operating Revenues	\$ 9,295	\$ 12,871,774	\$ 12,881,069
Depreciation Expense		(3,455,014)	(3,455,014)
Other Operating Expenses	(3,190)	(56,901,243)	(56,904,433)
Operating Income (Loss)	6,105	(47,484,483)	(47,478,378)
Nonoperating Revenues (Expenses):			
Nonoperating Revenue		42,469,508	42,469,508
Interest Expense		(139,083)	(139,083)
Net Nonoperating Revenues		42,330,425	42,330,425
Other Revenues, Expenses, Gains, and Losses		2,271,812	2,271,812
Increase (Decrease) in Net Position	6,105	(2,882,246)	(2,876,141)
Net Position, Beginning of Year, College		86,680,784	86,680,784
Net Position, Beginning of Year, Blended Component Unit (1)	831,379		831,379
Net Position, End of Year	\$ 837,484	\$ 83,798,538	\$ 84,636,022

Note 1: The beginning net position of The Appleton Cultural Center, Inc., is shown on the financial statements in the statement of revenues, expenses, and changes in net position as an adjustment to beginning net position of the total primary government to report the blending of this component unit with the College. See note 2 to the financial statements.

COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Condensed Statement of Cash Flows

	Blended Component Unit The Appleton Cultural Center, Inc. 12-31-12	College 6-30-13	Total Primary Government
Net Cash Provided (Used) by:			
Operating Activities	\$ 9,295	\$ (44,345,912)	\$ (44,336,617)
Noncapital Financing Activities		42,313,140	42,313,140
Capital and Related Financing Activities		799,345	799,345
Investing Activities	(9,292)	244,034	234,742
Net Increase (Decrease) in			
Cash and Cash Equivalents	3	(989,393)	(989,390)
Cash and Cash Equivalents, Beginning of Year, College		13,254,296	13,254,296
Cash and Cash Equivalents, Beginning of Year, Blended Component Unit (1)	29,655		29,655
Cash and Cash Equivalents, End of Year	<u>\$ 29,658</u>	<u>\$ 12,264,903</u>	<u>\$ 12,294,561</u>

Note 1: The beginning cash and cash equivalents of The Appleton Cultural Center, Inc., is shown on the financial statements in the statement of cash flows as an adjustment to beginning cash and cash equivalents of the total primary government to report the blending of this component unit with the College. See note 2 to the financial statements.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 199,834	\$ 199,834	0%	\$ 17,347,862	1.15%
7/1/2009		168,293	168,293	0%	17,874,831	0.94%
7/1/2011		324,567	324,567	0%	17,161,943	1.89%

Note: (1) The actuarial cost method used to estimate the actuarial accrued liability is the projected unit credit method.

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

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2011, unfunded actuarial accrued liability of \$324,567 increased by 93 percent from the July 1, 2009, liability of \$168,293 primarily due to:

- Demographic assumptions (rates of withdrawal, retirement, disability, and mortality) were revised to be consistent with those used for the Florida Retirement System.
- The assumed per capita costs of healthcare were updated, including a change to the methodology used to relate healthcare costs between ages.
- The payroll growth rate assumption was increased from 3 to 4 percent.
- The assumed rates of healthcare inflation used to project the per capita healthcare costs were revised.
- The assumed rates of participation in the Plan were adjusted to reflect current experience.



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

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

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the College of Central Florida, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 17, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit and the blended component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
February 17, 2014

PRIOR AUDIT FOLLOW-UP

The College had taken corrective action for the finding included in our report No. 2013-138.