

Report No. 2018-095
January 2018

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

NEW COLLEGE OF FLORIDA

For the Fiscal Year Ended
June 30, 2017



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2016-17 fiscal year, Dr. Donal O'Shea served as President of New College of Florida and the following individuals served as Members of the Board of Trustees:

Felice C. Schulaner, Chair from 9-11-16, Vice Chair through 9-10-16	Elaine M. Keating Charlene "Charlie" J. Lenger
William R. Johnston, Vice Chair from 9-11-16	John Lilly
Keith D. Monda, Chair through 9-10-16 ^a	Fermin C. Miranda
Bradford D. Baker	Dr. Suzanne Sherman through 8-6-16 ^b
Audrey R. Coleman	George A. Skestos
Keith Fitzgerald from 8-7-16 ^b	Norman Worthington III
Miles Matthew Wainwright Iton ^c	

^a Trustee position vacant 9-11-16, through 6-30-17.

^b Chair of Faculty Senate.

^c Student Body President.

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

The team leader was Courtney J. Carlsen, CPA, and the supervisor was Rachel P. Sellers, CPA.

Please address inquiries regarding this report to Jaime Hoelscher, CPA, Audit Manager, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

This report and other reports prepared by the Auditor General are available at:

FLAuditor.gov

Printed copies of our reports may be requested by contacting us at:

State of Florida Auditor General

Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722

NEW COLLEGE OF FLORIDA
TABLE OF CONTENTS

	<u>Page No.</u>
SUMMARY	i
INDEPENDENT AUDITOR'S REPORT	1
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	14
Statement of Revenues, Expenses, and Changes in Net Position	16
Statement of Cash Flows	18
Notes to Financial Statements	20
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Other Postemployment Benefits Plan	45
Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan	45
Schedule of University Contributions – Florida Retirement System Pension Plan	45
Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan	46
Schedule of University Contributions – Health Insurance Subsidy Pension Plan	46
Notes to Required Supplementary Information	47
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	
Internal Control Over Financial Reporting	48
Compliance and Other Matters	49
Purpose of this Report	49

SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether New College of Florida and its officers with administrative and stewardship responsibilities for University operations had:

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

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2017. We obtained an understanding of the University'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 University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

AUDIT METHODOLOGY

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



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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



Phone: (850) 412-2722
Fax: (850) 488-6975

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of New College of 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, 2017, and the related notes to the financial statements, which collectively comprise the University'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. The financial statements of the New College of Florida Development Corporation, a blended component unit, represent 9.9 percent, 0.6 percent, 3.1 percent, and 3 percent, respectively, of the liabilities, net position, revenues, and expenses, reported for New College of Florida. The financial statements of the discretely presented component unit represents 100 percent of the transactions and account balances of the discretely presented component unit's columns. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the blended and discretely presented component units, are 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 other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the New College of Florida and of its discretely presented component unit as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 24, 2018, on our consideration of the New College of 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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the New College of Florida's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
January 24, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

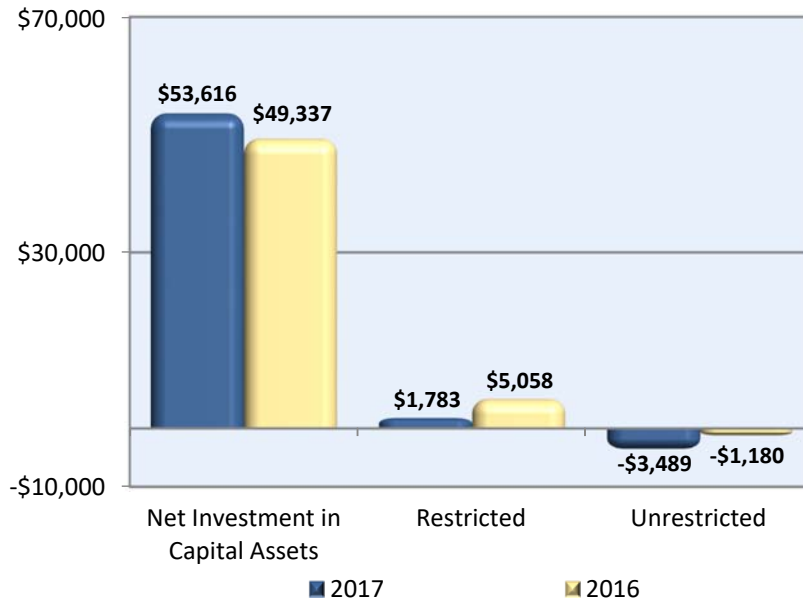
FINANCIAL HIGHLIGHTS

The University's assets and deferred outflows of resources totaled \$102 million at June 30, 2017. This balance reflects a \$2.7 million increase as compared to the 2015-16 fiscal year, resulting primarily from increases in capital assets and deferred outflows of resources offset by a decrease in funds due from the State and investments. While assets and deferred outflows increased, liabilities and deferred inflows of resources also increased by \$4 million, or 8.7 percent, totaling \$50 million at June 30, 2017, compared to \$46 million at June 30, 2016. The increases were due mainly to increases in construction contracts payable, net pension liability and other postemployment benefits payable offset by a decrease in certificates of participation payable, other non-current liabilities, and deferred inflows of resources. As a result, the University's net position decreased by \$1.3 million, resulting in a year-end balance of \$51.9 million.

The University's operating revenues totaled \$11.2 million for the 2016-17 fiscal year, representing a 3.5 percent increase compared to the 2015-16 fiscal year due mainly to increases in net student tuition and fees and grants and contracts, offset by a decrease in and sales and services of auxiliary enterprises and other operating revenue. Operating expenses totaled \$40.3 million for the 2016-17 fiscal year, representing an increase of 4.8 percent as compared to the 2015-16 fiscal year due mainly to an increase in compensation and employee benefits, services and supplies, and scholarships and fellowships offset by a slight decrease in utilities and communications.

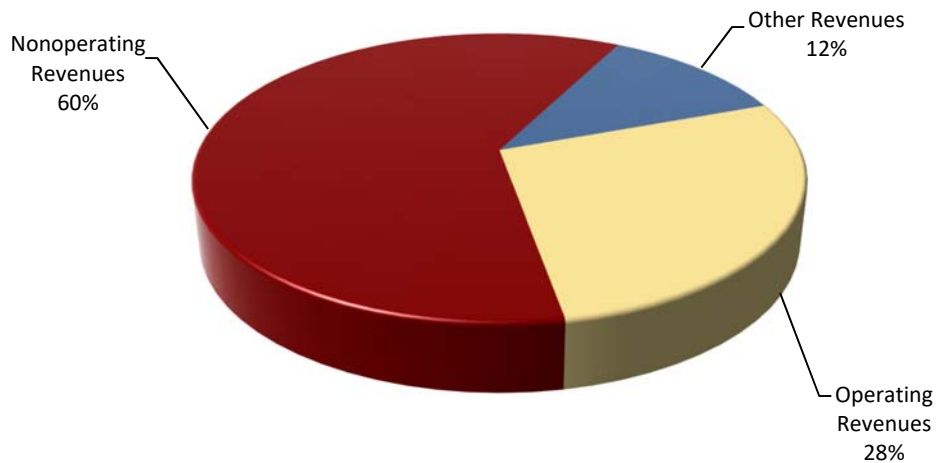
Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University's comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, is shown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

**Net Position
(In Thousands)**



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

**Total Revenues
2016-17 Fiscal Year**



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University’s financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. These component units include: New College Foundation, Inc. (Foundation) and the New College of Florida Development Corporation (Development Corporation). Based on the application of the criteria for determining component units, the Development Corporation

is included within the University reporting entity as a blended component unit, and the Foundation is included within the University reporting entity as a discretely presented component unit.

Information regarding these component units is presented in the notes to financial statements. This MD&A focuses on the University, excluding the discretely presented component unit.

The Statement of Net Position

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

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

Condensed Statement of Net Position at June 30

(In Thousands)

	2017	2016
Assets		
Current Assets	\$ 14,410	\$ 16,581
Capital Assets, Net	79,194	75,698
Other Noncurrent Assets	595	512
Total Assets	94,199	92,791
Deferred Outflows of Resources	7,759	6,480
Liabilities		
Current Liabilities	4,609	3,251
Noncurrent Liabilities	45,364	41,892
Total Liabilities	49,973	45,143
Deferred Inflows of Resources	75	913
Net Position		
Net Investment in Capital Assets	53,616	49,337
Restricted	1,783	5,058
Unrestricted	(3,489)	(1,180)
Total Net Position	\$ 51,910	\$ 53,215

Current assets at June 30, 2017, totaled \$14.4 million, compared to \$16.6 million at June 30, 2016, reflecting a decrease of \$2.2 million. Although due from the State relating to Public Education Capital Outlay (PECO) projects decreased by \$1.5 million and investments decreased by \$1.3 million, these decreases were offset by an increase in cash and cash equivalents of \$0.7 million.

Total capital assets of \$79.2 million increased by \$3.5 million from the prior fiscal year. This increase was due to the increase of construction work in progress of \$6.6 million and an addition in depreciable capital assets of \$0.3 million offset by an increase in accumulated depreciation of \$3.4 million.

Other noncurrent assets increased by \$0.1 million related to an increase in restricted investments while deferred outflows of resources increased \$1.3 million related to the increase in deferred outflows of pension resources of \$2.8 million offset by a decrease in the fair value of an interest rate swap agreement related to the Development Corporation of \$1.5 million.

Liabilities at June 30, 2017, totaled \$49.9 million, compared to \$45.1 million at June 30, 2016. This represents a \$4.8 million increase. This increase is composed primarily of \$4.4 million in net pension liability, \$1.2 million in other postemployment benefits payable, and \$1 million in construction contracts payable, offset by a \$1.5 million decrease in other noncurrent liabilities, and a \$0.8 million decrease in certificates of participation payable.

Deferred inflows of resources at June 30, 2017, totaled \$0.1 million, compared to \$0.9 million at June 30, 2016. This decrease is due to the decrease in deferred inflows of pension resources.

In summary, New College of Florida's net position of \$51.9 million at June 30, 2017, included \$53.6 million net investment in capital assets, \$1.8 million in restricted expendable net position, and a deficit of \$3.5 million in unrestricted net position, as disclosed in Note 3.

The Statement of Revenues, Expenses, and Changes in Net Position

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

The following summarizes the University's activity for the 2016-17 and 2015-16 fiscal years:

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

	2016-17	2015-16
Operating Revenues	\$ 11,218	\$ 10,834
Less, Operating Expenses	40,280	38,432
Operating Loss	(29,062)	(27,598)
Net Nonoperating Revenues	22,979	22,906
Loss Before Other Revenues	(6,083)	(4,692)
Other Revenues	4,778	3,425
Net Decrease In Net Position	(1,305)	(1,267)
Net Position, Beginning of Year	53,215	54,482
Net Position, End of Year	\$ 51,910	\$ 53,215

Operating Revenues

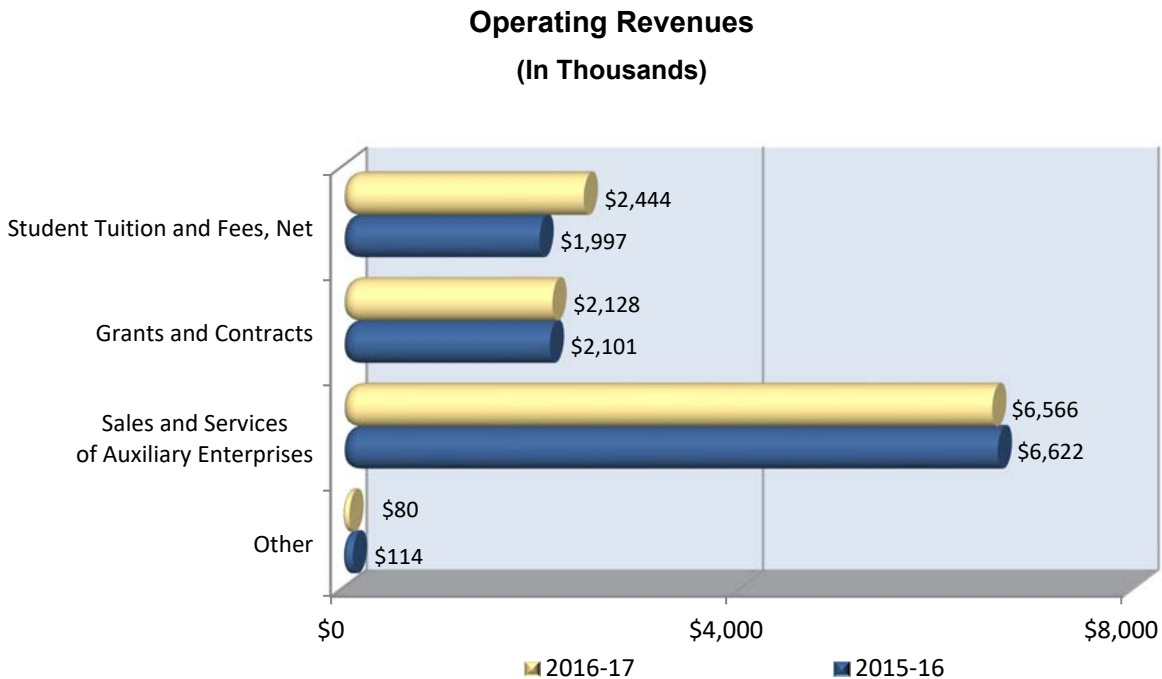
GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

The following summarizes the operating revenues by source that were used to fund operating activities for the 2016-17 and 2015-16 fiscal years:

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

	<u>2016-17</u>	<u>2015-16</u>
Student Tuition and Fees, Net	\$ 2,444	\$ 1,997
Grants and Contracts	2,128	2,101
Sales and Services of Auxiliary Enterprises	6,566	6,622
Other	80	114
Total Operating Revenues	\$ 11,218	\$ 10,834

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



Total operating revenues increased by \$0.4 million in the 2016-17 fiscal year due primarily to increases in net student tuition and fees.

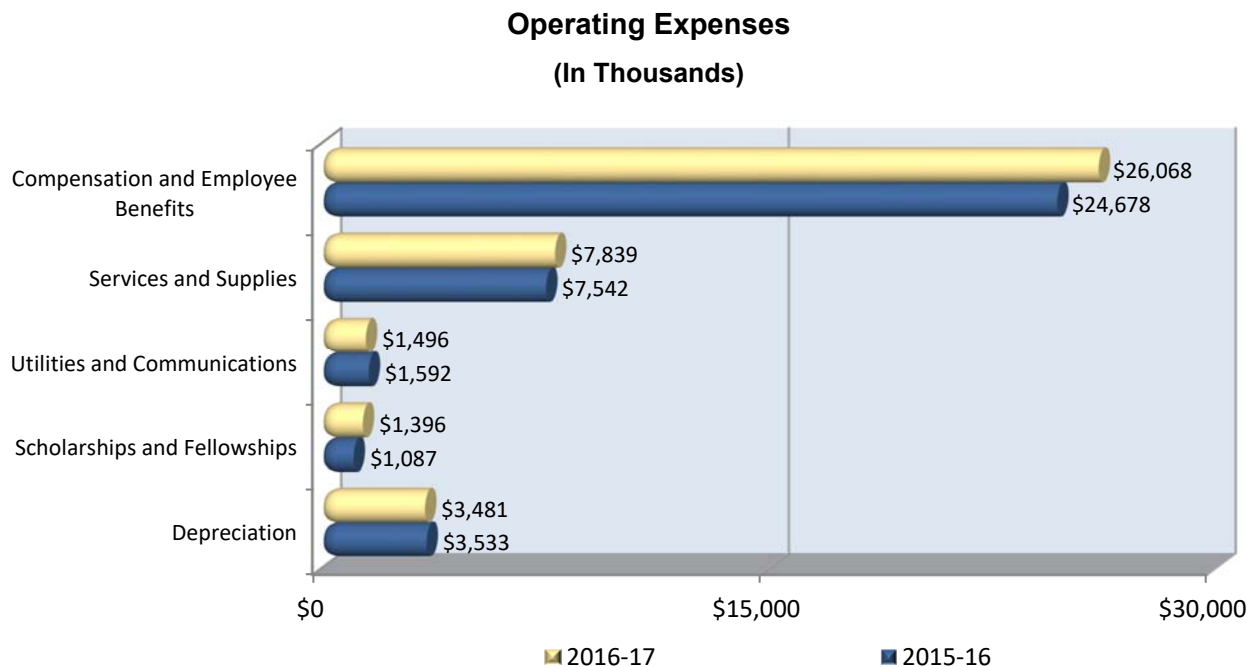
Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the University'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 University has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to financial statements.

The following summarizes operating expenses by natural classification for the 2016-17 and 2015-16 fiscal years:

Operating Expenses For the Fiscal Years		
(In Thousands)		
	2016-17	2015-16
Compensation and Employee Benefits	\$ 26,068	\$ 24,678
Services and Supplies	7,839	7,542
Utilities and Communications	1,496	1,592
Scholarships and Fellowships	1,396	1,087
Depreciation	3,481	3,533
Total Operating Expenses	\$ 40,280	\$ 38,432

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



Total operating expenses for the 2016-17 fiscal year were \$40.3 million as compared to \$38.4 million for the 2015-16 fiscal year, which is a \$1.9 million, or 4.8 percent increase. The increase is due to an increase in compensation and employee benefits of \$1.4 million, an increase in services and supplies of

\$0.3 million, and in increase in scholarships and fellowships of \$0.3 million, offset by a decrease in utilities and communications and depreciation expense of \$0.2 million. Compensation and employee benefits accounted for 64.7 percent of total operating expenses and increased 5.6 percent over the 2015-16 fiscal year. The increase was primarily due to bonuses, salaries and benefits related to new positions brought online during the year, as well as increases in the accrual for pension expenses and other postemployment benefits.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, 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 University's nonoperating revenues and expenses for the 2016-17 and 2015-16 fiscal years:

Nonoperating Revenues (Expenses)		
For the Fiscal Years		
(In Thousands)		
	2016-17	2015-16
State Noncapital Appropriations	\$ 19,640	\$ 19,345
Federal and State Student Financial Aid	3,121	3,177
Noncapital Grants, Contracts and Gifts	1,557	1,439
Investment Income	(57)	296
Other Nonoperating Revenues	10	12
Interest on Capital Asset-Related Debt	(1,223)	(1,264)
Other Nonoperating Expenses	(69)	(99)
Net Nonoperating Revenues	\$ 22,979	\$ 22,906

Net nonoperating revenues increased \$0.1 million during the 2016-17 fiscal year. The increase was due mainly to a \$0.3 million increase in state noncapital appropriations and a \$0.1 million increase in noncapital grants, contracts and gifts offset by a \$0.3 million decrease in net investment income.

Other Revenues

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

Other Revenues		
For the Fiscal Years		
(In Thousands)		
	2016-17	2015-16
State Capital Appropriations	\$ 4,778	\$ 3,343
Capital Grants, Contracts, Donations, and Fees	-	82
Total	\$ 4,778	\$ 3,425

Total other revenue for the 2015-16 fiscal year increased by \$1.3 million over the prior fiscal year and was due to a \$1.4 million increase in State capital appropriations offset by a \$0.1 million decrease in capital grants, contracts, donations, and fees.

The Statement of Cash Flows

The statement of cash flows provides information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the University'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 University. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2016-17 and 2015-16 fiscal years:

Condensed Statement of Cash Flows For the Fiscal Years (In Thousands)

	2016-17	2015-16
Cash Provided (Used) by:		
Operating Activities	\$ (23,080)	\$ (22,958)
Noncapital Financing Activities	24,263	23,898
Capital and Related Financing Activities	(1,735)	(995)
Investing Activities	1,222	183
Net Increase in Cash and Cash Equivalents	670	128
Cash and Cash Equivalents, Beginning of Year	1,466	1,338
Cash and Cash Equivalents, End of Year	\$ 2,136	\$ 1,466

Major sources of funds came from State noncapital appropriations (\$19.6 million), sales and services of auxiliary enterprises (\$6.6 million), State capital appropriations (\$6.2 million), Federal and State student financial aid (\$3.1 million), net student tuition and fees (\$2.6 million) and grants and contracts (\$2.1 million). Major uses of funds were for payments made to and on behalf of employees totaling \$23.8 million, payments to suppliers totaling \$9.4 million and construction of capital assets totaling \$6 million. Changes in cash and cash equivalents were the result of the following factors:

- The increase of \$0.4 million in net cash used by noncapital financing activities was primarily due to increase in state appropriations and noncapital grants, contracts, and donations.
- The decrease of \$0.7 million in net cash used by capital and related financing activities was primarily due to a \$1.8 million increase in State capital appropriations and continued purchase or construction of capital assets using previously appropriated funds of \$2.5 million.
- Cash inflows provided by investing activities increased by \$1.1 million due to a \$1.9 million increase in proceeds from sales and maturity of investments offset by a \$0.8 million increase in the purchases of investments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the University had \$130.8 million in capital assets, less accumulated depreciation of \$51.6 million, for net capital assets of \$79.2 million. Depreciation charges for the current fiscal year totaled \$3.5 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30		
(In Thousands)		
	2017	2016
Land	\$ 4,562	\$ 4,562
Works of Art and Historical Treasures	42	42
Construction in Progress	7,011	406
Buildings	62,467	65,253
Infrastructure and Other Improvements	4,770	4,904
Furniture and Equipment	303	479
Computer Software	39	52
Capital Assets, Net	\$ 79,194	\$ 75,698

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

Debt Administration

As of June 30, 2017, the University had \$25.6 million in outstanding certificates of participation payable, representing a decrease of \$0.8 million, or 3 percent, from the prior fiscal year.

Additional information about the University's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The State and national economy continue to have a major impact on the University. State noncapital and capital appropriations for the 2016-17 fiscal year totaled \$24.4 million and are the largest sources of funding. The level of recurring State noncapital support included in the budget the Florida Legislature adopted for the 2017-18 fiscal year is \$27.1 million or \$7.5 million (38.3 percent) more than the level that was funded in the 2016-17 fiscal year. The 2017-18 funding for nonrecurring State noncapital support is \$2.5 million. These funds have been provided to support enrollment growth at the University.

The University received a total of \$2.8 million from the Foundation, during the 2016-17 fiscal year, including \$0.7 million in student aid, and \$2.1 million in other program support. Included in the \$2.1 million of other program support is \$0.8 million to subsidize faculty and other personnel costs. These funds are used to support the University's low student to faculty ratio, a feature that has been crucial to attracting students and increasing enrollment at the University. In the unlikely event the Foundation becomes unable to fund these contributions, losing this funding could adversely impact the University if not offset

by additional funding appropriated by the Legislature or generated through increases in student tuition and fees.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Associate Vice President of Finance/Controller, New College of Florida, 5800 Bay Shore Road, Sarasota, Florida, 34243-2109.

BASIC FINANCIAL STATEMENTS

NEW COLLEGE OF FLORIDA A Component Unit of the State of Florida Statement of Net Position

June 30, 2017

	<u>University</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 2,135,932	\$ 982,503
Restricted Cash and Cash Equivalents	-	917,715
Investments	8,594,100	225,610
Accounts Receivable, Net	530,326	1,143,662
Due from State	2,956,186	-
Other Current Assets	193,014	2,137
Total Current Assets	<u>14,409,558</u>	<u>3,271,627</u>
Noncurrent Assets:		
Investments	-	42,144,092
Restricted Investments	594,924	-
Depreciable Capital Assets, Net	67,578,780	756,232
Nondepreciable Capital Assets	11,615,641	179,310
Total Noncurrent Assets	<u>79,789,345</u>	<u>43,079,634</u>
Total Assets	<u>94,198,903</u>	<u>46,351,261</u>
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated Decrease in Fair Value of Hedging		
Derivatives	2,209,315	-
Deferred Amounts Related to Pensions	5,550,081	-
Total Deferred Outflows of Resources	<u>7,759,396</u>	<u>-</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	425,398	116,396
Construction Contracts Payable	1,319,884	-
Salary and Wages Payable	1,214,423	-
Deposits Payable	20,325	-
Unearned Revenue	218,436	736,103
Other Current Liabilities	304,397	-
Long-Term Liabilities - Current Portion:		
Certificates of Participation Payable	820,000	-
Compensated Absences Payable	190,689	-
Net Pension Liability	95,132	-
Total Current Liabilities	<u>4,608,684</u>	<u>852,499</u>

NEW COLLEGE OF FLORIDA
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2017

	University	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Certificates of Participation Payable	24,758,240	-
Compensated Absences Payable	2,241,566	-
Other Postemployment Benefits Payable	5,865,000	-
Net Pension Liability	10,290,240	-
Other Noncurrent Liabilities	2,209,315	123,048
Total Noncurrent Liabilities	45,364,361	123,048
Total Liabilities	49,973,045	975,547
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	74,982	-
NET POSITION		
Net Investment in Capital Assets	53,616,181	935,542
Restricted for Nonexpendable:		
Endowment	-	36,259,220
Restricted for Expendable:		
Capital Projects	1,384,108	-
Other	398,853	7,192,473
Unrestricted	(3,488,870)	988,479
TOTAL NET POSITION	\$ 51,910,272	\$ 45,375,714

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

NEW COLLEGE OF 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, 2017

	University	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$5,945,704	\$ 2,443,961	\$ -
Federal Grants and Contracts	178,751	-
State and Local Grants and Contracts	41,357	-
Nongovernmental Grants and Contracts	1,908,457	-
Sales and Services of Auxiliary Enterprises (\$4,475,865 Pledged for Housing Facility Certificates of Participation)	6,565,622	-
Gifts and Donations	-	2,448,955
Other Operating Revenues	79,670	-
Total Operating Revenues	11,217,818	2,448,955
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	26,068,039	-
Services and Supplies	7,839,057	-
Utilities and Communications	1,495,793	-
Scholarships and Fellowships	1,396,869	-
Depreciation	3,480,993	-
Other Operating Expenses	-	4,048,604
Total Operating Expenses	40,280,751	4,048,604
Operating Loss	(29,062,933)	(1,599,649)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	19,639,761	-
Federal and State Student Financial Aid	3,121,460	-
Noncapital Grants, Contracts, and Donations	1,557,138	-
Investment Income	(57,245)	4,137,401
Other Nonoperating Revenues	9,843	-
Loss on Disposal of Capital Assets	(2,250)	-
Interest on Capital Asset-Related Debt	(1,223,068)	-
Other Nonoperating Expenses	(66,215)	-
Net Nonoperating Revenues	22,979,424	4,137,401
Increase (Loss) Before Other Revenues	(6,083,509)	2,537,752
State Capital Appropriations	4,778,348	-
Increase (Decrease) in Net Position	(1,305,161)	2,537,752
Net Position, Beginning of Year	53,215,433	42,997,962
Adjustment to Beginning Net Position	-	(160,000)
Net Position, Beginning of Year, Restated	53,215,433	42,837,962
Net Position, End of Year	\$ 51,910,272	\$ 45,375,714

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

THIS PAGE INTENTIONALLY LEFT BLANK

NEW COLLEGE OF FLORIDA
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 2,559,044
Grants and Contracts	2,074,947
Sales and Services of Auxiliary Enterprises	6,579,048
Other Operating Receipts	234,132
Payments to Employees	(23,750,330)
Payments to Suppliers for Goods and Services	(9,379,794)
Payments to Students for Scholarships and Fellowships	(1,396,869)
	<u>(23,079,822)</u>
Net Cash Used by Operating Activities	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	19,640,415
Federal and State Student Financial Aid	3,121,460
Noncapital Grants, Contracts, and Donations	1,557,138
Federal Direct Loan Program Receipts	1,934,494
Federal Direct Loan Program Disbursements	(1,934,494)
Net Change in Funds Held for Others	(1,080)
Other Nonoperating Receipts	9,843
Other Nonoperating Disbursements	(64,356)
	<u>24,263,420</u>
Net Cash Provided by Noncapital Financing Activities	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	6,245,825
Purchase or Construction of Capital Assets	(5,975,839)
Principal Paid on Capital Debt and Leases	(785,000)
Interest Paid on Capital Debt and Leases	(1,220,576)
	<u>(1,735,590)</u>
Net Cash Used by Capital and Related Financing Activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	29,193,766
Purchases of Investments	(28,132,981)
Investment Income	161,574
	<u>1,222,359</u>
Net Cash Provided by Investing Activities	
Net Increase in Cash and Cash Equivalents	670,367
Cash and Cash Equivalents, Beginning of Year	1,465,565
	<u>\$ 2,135,932</u>

NEW COLLEGE OF FLORIDA
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2017

	University
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (29,062,933)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,480,993
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	107,900
Other Assets	(97,220)
Accounts Payable	51,276
Salaries and Wages Payable	125,049
Compensated Absences Payable	194,087
Unearned Revenue	122,452
Other Postemployment Benefits Payable	1,234,000
Net Pension Liability	4,397,990
Deferred Outflows of Resources Related to Pensions	(2,795,437)
Deferred Inflows of Resources Related to Pensions	(837,979)
NET CASH USED BY OPERATING ACTIVITIES	\$ (23,079,822)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES	
Unrealized loss on investments were recognized as a reduction 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.	\$ (218,819)
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (2,250)

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of 5 years. The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations, and selecting the University President. The University President serves as the executive officer and the corporate secretary of the Trustees, and is responsible for administering the policies prescribed by the Trustees.

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 primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading. Based on the application of these criteria, the University is a component unit of the State of Florida, and its financial balances and activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Blended Component Unit. Although it is legally separate from the University, the New College of Florida Development Corporation (Development Corporation) is included within the University's reporting entity as a blended component unit, based on the application of the criteria for determining component units. The Development Corporation was created on November 4, 2005, as a not-for-profit Florida corporation under the provisions of Chapter 617, Florida Statutes and as a direct-support organization of the University. The Development Corporation was established to secure, hold, invest, and administer property and to make expenditures for the exclusive benefit of the University. Due to the substantial economic relationship between the Development Corporation and the University, the financial activities of the Development Corporation are included in the University's financial statements. An annual audit of the Development Corporation is conducted by independent certified public accountants and is submitted to the Auditor General and the University Board of Trustees. Additional information on the Development Corporation, including copies of audit reports, is available by contacting the University's Controller's Office. Condensed financial statements for the University's blended component unit is shown in a subsequent note. The condensed financial statements are reported net of eliminations.

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the New College Foundation, Inc. (Foundation), (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011), is included within the University's reporting entity as a discretely presented component unit. This legally separate not-for-profit corporation is organized and operated exclusively to fund, in whole or in part, academic programs of New College of

Florida by providing supplemental resources from private gifts and bequests, and grants that may be negotiated annually. The Foundation is governed by a separate board. The Statutes authorize the Foundation to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University.

An annual audit of the Foundation is conducted by independent certified public accountants. Additional information on the Foundation, including copies of audit reports, is available by contacting the University's Controller's Office. Audited financial statements can be obtained from the Associate Vice President of Finance/Controller, New College of Florida, 5800 Bay Shore Rd., Sarasota, Florida 34243-2109.

Basis of Presentation. The University'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 University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

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

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

The University's discretely presented component unit also uses the economic resources measurement focus and the accrual basis of accounting, and follows FASB standards of accounting and financial reporting for not-for-profit organizations.

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 University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, and investment income (net of unrealized gains or losses on investments), 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 University's policy to first apply the restricted resources to such programs, followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is actually paid by the student or the third party making payment on behalf of the student. The University applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party aid.

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

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand and cash in demand accounts. University 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.

Capital Assets. University capital assets consist of land; works of art and historical treasures; construction in progress; buildings, infrastructure and other improvements; furniture and equipment; library resources; and computer software. These assets are capitalized and recorded at cost at the date of acquisition or at acquisition value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$5,000 for tangible personal property and \$100,000 for new buildings, and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 15 to 50 years
- Infrastructure and Other Improvements – 20 years
- Furniture and Equipment – 3 to 15 years
- Library Resources – 5 to 10 years
- Computer Software – 7 years

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of certificates of participation payable, compensated absences payable, other postemployment benefits payable, net pension liability, and other noncurrent liabilities (an interest rate swap) that are not scheduled to be paid within the next fiscal year. Certificates of participation payable are reported net of unamortized discounts. The University amortizes debt discounts over the life of the debt using the straight-line method.

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

2. Adjustment to Beginning Net Position

The following is a summary of adjustments to beginning net position of the discretely presented component unit reported in the statement of revenues, expenses, and changes in net position:

<u>Description</u>	<u>Component Unit</u>
To Decrease Beginning Net Position due to write-off of prior year receivables.	\$ 160,000

3. Deficit Net Position in Individual Funds

The University reported an unrestricted net position which included a deficit in the current funds – unrestricted as shown below. This deficit can be attributed to the full recognition of the pay-as-you-go long-term liabilities of compensated absences payable, other postemployment benefits payable, and net pension liabilities in the current unrestricted funds.

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (6,772,456)
Auxiliary Funds	3,283,586
Total	\$ (3,488,870)

4. Investments

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the

requirements of Chapter 218, Part IV, Florida Statutes. The Board of Trustees has adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open end or closed end management type investment companies; and other investments approved by the Board of Trustees as authorized by law. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

The University's recurring fair value measurements as of June 30, 2017, are investments with the State Treasury which are valued based on the University's share of the pool (Level 3 inputs).

External Investment Pools

The University reported investments at fair value totaling \$9,189,024 at June 30, 2017, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities (Level 3 inputs). Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. The State Treasury SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.8 years and fair value factor of 0.9923 at June 30, 2017. Participants contribute to the State Treasury SPIA Investment Pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance. The University 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 investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the University's discretely presented component unit at June 30, 2017, are reported at fair value as follows:

	Amount	Fair Value Measurements on a Recurring Basis at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Mutual Funds				
Fixed Income	\$10,111,236	\$ 10,111,236	\$ -	\$ -
Equities	26,676,409	26,676,409	-	-
Private Equity and Other	5,582,057	-	-	5,582,057
Total investments by fair value level	\$42,369,702	\$ 36,787,645	\$ -	\$ 5,582,057

5. Receivables

Accounts Receivable. Accounts receivable represent amounts for contract and grant reimbursements due from third parties, student tuition and fees, and various sales and services provided to students and third parties. As of June 30, 2017, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Student Tuition and Fees	\$ 16,402
Contracts and Grants	309,946
Auxiliary Services	83,245
Other	145,399
Total Accounts Receivable	554,992
Less: Allowance for Uncollectible Accounts	<u>24,666</u>
Accounts Receivable, Net	<u>\$ 530,326</u>

Allowance for Doubtful Receivables. Allowances for doubtful accounts is reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable are reported net of allowances of \$24,666 at June 30, 2017.

No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

6. Due From State

The amount due from State consists of \$2,910,162 of Public Education Capital Outlay and \$46,024 from Capital Improvement Fee Trust Fund allocations due from the State to the University for construction of University facilities.

7. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2017, is shown in the following table:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 4,561,975	\$ -	\$ -	\$ 4,561,975
Works of Art and Historical Treasures	42,340	-	-	42,340
Construction in Progress	405,808	6,605,518	-	7,011,326
Total Nondepreciable Capital Assets	\$ 5,010,123	\$ 6,605,518	\$ -	\$ 11,615,641
Depreciable Capital Assets:				
Buildings	\$ 106,710,036	\$ 64,000	\$ -	\$ 106,774,036
Infrastructure and Other Improvements	6,557,742	203,466	-	6,761,208
Furniture and Equipment	4,984,528	106,229	56,269	5,034,488
Library Resources	484,367	-	-	484,367
Computer Software	140,684	-	11,871	128,813
Total Depreciable Capital Assets	118,877,357	373,695	68,140	119,182,912
Less, Accumulated Depreciation:				
Buildings	41,457,253	2,849,335	-	44,306,588
Infrastructure and Other Improvements	1,654,102	337,090	-	1,991,192
Furniture and Equipment	4,505,048	283,104	56,269	4,731,883
Library Resources	484,367	-	-	484,367
Computer Software	88,259	11,464	9,621	90,102
Total Accumulated Depreciation	48,189,029	3,480,993	65,890	51,604,132
Total Depreciable Capital Assets, Net	\$ 70,688,328	\$ (3,107,298)	\$ 2,250	\$ 67,578,780

8. Unearned Revenue

Unearned revenue at June 30, 2017, includes contracts and grants revenue and student tuition and fees received prior to fiscal year end related to subsequent accounting periods. As of June 30, 2017, the University reported the following amounts as unearned revenue:

Description	Amount
Contracts and Grants	\$ 140,205
Student Tuition and Fees	78,231
Total Unearned Revenue	\$ 218,436

9. Deferred Outflow / Inflow of Resources

The University's blended component unit (Development Corporation) entered into an interest rate swap agreement in connection with its \$30 million certificates of participation issuance to manage the risk of rising interest rates on its variable rate-based debt. Deferred outflows of resources includes the effect of deferring accumulated decreases in fair value of a hedging derivative related to this interest rate swap agreement. The other noncurrent liabilities section of Note 10. below includes a complete discussion of the swap agreement.

The deferred outflows and inflows related to pensions are an aggregate of items related to pensions as calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Total deferred outflows of pension resources were \$5,550,081 and total deferred inflows of resources related to pensions were \$74,982 for the fiscal year ended June 30, 2017. Note 11. includes a complete discussion of defined benefit pension plans.

10. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2017, include certificates of participation payable, compensated absences payable, other postemployment benefits payable, net pension liability, and other noncurrent liabilities (an interest rate swap). Long-term liabilities activity for the fiscal year ended June 30, 2017, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Certificates of Participation Payable	\$ 26,360,748	\$ 2,492	\$ 785,000	\$ 25,578,240	\$ 820,000
Compensated Absences Payable	2,238,168	345,496	151,409	2,432,255	190,689
Other Postemployment Benefits Payable	4,631,000	1,332,000	98,000	5,865,000	-
Net Pension Liability	5,987,382	7,227,616	2,829,626	10,385,372	95,132
Other Noncurrent Liabilities	3,725,854	-	1,516,539	2,209,315	-
Total Long-Term Liabilities	\$ 42,943,152	\$ 8,907,604	\$ 5,380,574	\$ 46,470,182	\$ 1,105,821

Certificates of Participation Payable. On April 7, 2006, the Development Corporation issued variable rate Certificates of Participation (COPS), Series 2006, in the amount of \$30,110,000. The proceeds were used to finance the acquisition, construction, and equipping of five new residence halls containing approximately 200 new student beds, the renovation and improvement of three existing residence halls (Johnson, Bates, and Rothenberg), comprising the Pei complex, and renovation and improvement to the Hamilton Center, the student activities center.

In April of 2012, the Development Corporation, through resolution of the Board, restructured the existing variable rate COPS as allowed under the master trust indenture. The existing COPs were restructured as a non-bank qualified tax exempt variable facility (New College of Florida Development Corporation, Series 2012 Conversion). The interest rate is 77 percent of the sum of the 30-day London Interbank Offered Rate plus 185 basis points. The revised agreement is for 10 years, with an option to extend for an additional 10 years. However, the existing maturity and principal payment requirements pursuant to the original 2006 debt issuance were not restructured.

As a condition of the financing arrangement, the University entered into a Master Ground and Operating Lease Agreement with the Development Corporation. The property covered by the Master Ground lease together with the improvement thereon is leased back by the University to manage and operate through the Master Operating Lease and Facilities Sublease and Management Agreement. The payments on the lease are equal to the annual debt service requirements of the related bond debt and operating costs of the Development Corporation. The lease will terminate on the date the certificates and any related obligations are paid in full. Revenues from student resident facilities are pledged to pay rent to the Development Corporation or its assignees equal to the debt service on the long-term debt and any operating costs. During the 2016-17 fiscal year, student housing revenue totaled \$4,475,865.

Principal and interest payment requirements on the COPs outstanding as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 820,000	\$ 1,176,378	\$ 1,996,378
2019	855,000	1,135,829	1,990,829
2020	890,000	1,093,620	1,983,620
2021	930,000	1,049,515	1,979,515
2022	980,000	1,003,039	1,983,039
2023-2027	5,580,000	4,244,774	9,824,774
2028-2032	6,935,000	2,733,814	9,668,814
2033-2037	8,635,000	854,598	9,489,598
Subtotal	25,625,000	13,291,567	38,916,567
Less: Discounts	(46,760)	-	(46,760)
Total	\$ 25,578,240	\$ 13,291,567	\$ 38,869,807

Other Noncurrent Liabilities. Other noncurrent liabilities is the liability for an interest rate swap agreement. To protect against the potential of rising interest rates, the Development Corporation entered into an interest rate swap agreement at the time the COPs were issued. The intention of the swap was to effectively change the variable interest rate on the COPs to a synthetic fixed rate. In April of 2012, the existing swap agreement was amended to match the terms of the restructured debt. The details of the swap at June 30, 2017, are shown in the following table:

<u>Amount</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Fixed Rate</u>	<u>Variable Rate</u>	<u>Counterparty Credit Rating</u>
\$ 25,625,000	4-9-12	4-1-22	4.7245% (1)	(2)	BBB+ (3)

Notes: (1) 77 percent of 30 day LIBOR fixed at 3.30 percent, plus 77 percent of 1.85 percent equaling 1.4245 percent. The sum of these two components total an effective fixed rate of 4.7245 percent.

(2) 77 percent of 30 day LIBOR plus 185 basis points.

(3) Rated by Standard & Poor's.

The Development Corporation pays the variable rate interest quarterly and then either pays the swap interest expense or receives a swap payment to effectively fix the rate.

Fair Value: The swap had a negative fair value as of June 30, 2017 and 2016. The negative fair value may be offset by reductions in total interest payments required under the variable rate COPs, creating lower synthetic interest rates. Because the coupons on the Development Corporation variable-rate COPs adjust to changing interest rates, the COPs do not have corresponding fair value increases. The fair value estimate is provided to the Development Corporation by a financial institution known to be a high value participant in this market. The Development Corporation has requested the fair value of its swap agreement be determined, although it has no intention of selling the agreement and has the ability to hold and meet the swap obligation. At June 30, 2017, the negative fair value of the swap agreement held by the Development Corporation was \$2,209,315.

Credit Risk: As of June 30, 2017, the Development Corporation was not exposed to credit risk on its outstanding swap because of the negative fair value. However, should interest rates change and the fair value of the swap agreement becomes positive, the Development Corporation would be exposed to credit risk in the amount of the derivative's fair value.

Termination Risk: The Development Corporation or the counter party may terminate the swap agreement if the other party fails to perform under the terms of the contract. If the swap agreement is terminated, the associated variable-rate bonds would no longer carry synthetic fixed interest rates. Also, if at the time of the termination the swap agreement has a negative fair value, the Development Corporation would be liable to the counterparty for a payment equal to the fair value of the swap agreement.

Rollover Risk: The Development Corporation is exposed to rollover risk on the swap since it matures prior to the associated debt. When the swap terminates, the Development Corporation will not realize the synthetic rate offered by the agreement.

Basis Risk: The Development Corporation is exposed to basis risk because the variable rate payments are calculated on the basis of a 77 percent of LIBOR and the Development Corporations variable rate interest obligations on the notes is determined in the tax-exempt market. Should the relationship between LIBOR and the tax-exempt market change and move to converge, or should the debt trade at levels worse (higher in rate) in relation to the tax-exempt market, the Development Corporation's all-in costs would increase.

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University 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 University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2017, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$2,432,255. The current portion of the compensated absences liability, \$190,689, is the amount expected to be paid in the coming fiscal year, and is based on actual payouts for the last three years calculated as a percentage of those years' compensated absences liability.

Other Postemployment Benefits Payable. The University follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits administered by the State Group Health Insurance Program.

Plan Description. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer defined benefit (OPEB) Plan. The University subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Retirees are required to enroll in

the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the OPEB Plan information is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The State has not advance-funded OPEB costs or the net OPEB obligation. Premiums necessary for funding the OPEB Plan each year on a pay-as-you-go basis are established by the Governor’s recommended budget and the General Appropriations Act. For the 2016-17 fiscal year, 19 retirees received postemployment healthcare benefits. The University provided required contributions of \$98,000 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$152,000, which represents 0.9 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The University’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 University’s annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the University’s net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 782,000
Amortization of Unfunded Actuarial Accrued Liability	486,000
Interest on Normal Cost and Amortization	<u>50,000</u>
Annual Required Contribution	1,318,000
Interest on Net OPEB Obligation	185,000
Adjustment to Annual Required Contribution	<u>(171,000)</u>
Annual OPEB Cost (Expense)	1,332,000
Contribution Toward the OPEB Cost	<u>(98,000)</u>
Increase in Net OPEB Obligation	1,234,000
Net OPEB Obligation, Beginning of Year	<u>4,631,000</u>
Net OPEB Obligation, End of Year	<u>\$ 5,865,000</u>

The University’s annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2017, and for the 2 preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014-15	\$ 650,000	10.8%	\$ 3,360,000
2015-16	1,361,000	6.6%	4,361,000
2016-17	1,332,000	7.4%	5,865,000

Funded Status and Funding Progress. As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$12,263,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$12,263,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$16,540,148 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 74.1 percent.

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

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

The University's OPEB actuarial valuation as of July 1, 2015, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2017, and the University's 2016-17 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year and an inflation rate of 3 percent. Initial healthcare cost trend rates for all retirees in either the Preferred Provider Option (PPO) Plan or the Health Maintenance Organization (HMO) Plan are 3.1 percent, 6.6 percent, and 7.9 percent for the first 3 years for all retirees in the Pre-Medicare Eligible. The PPO and HMO healthcare trend rates both grade down to an ultimate rate of 3.9 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2017, was 20 years.

Net Pension Liability. As a participating employer in the Florida Retirement System, the University recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2017, the University's proportionate share of the net pension liabilities totaled \$10,385,372. Note 11. includes a complete discussion of defined benefit pension plans.

11. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

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

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

The University's FRS and HIS pension expense totaled \$1,673,387 for the fiscal year ended June 30, 2017.

FRS Pension Plan

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

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions.
- *Special Risk Class* – Members who are employed as law enforcement officers and meet the criteria to qualify for this class.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost of living adjustments to eligible participants.

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

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

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
<u>Regular Class members initially enrolled before July 1, 2011</u>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<u>Regular Class members initially enrolled on or after July 1, 2011</u>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<u>Senior Management Service Class</u>	2.00
<u>Special Risk Class</u>	
Service on and after October 1, 1974	3.00

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

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

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.52
FRS, Senior Management Service	3.00	21.77
FRS, Special Risk	3.00	22.57
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	12.99
FRS, Reemployed Retiree	(2)	(2)

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

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

The University's contributions to the Plan totaled \$765,793 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the University reported a liability of \$7,298,216 for its proportionate share of the net pension liability. The net pension liability was measured as of

June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The University's proportionate share of the net pension liability was based on the University's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the University's proportionate share was 0.028903737 percent, which was an increase of 0.001977028 from its proportionate share measured as of June 30, 2015.

For the year ended June 30, 2017, the University recognized pension expense of \$1,345,389. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 558,808	\$ 67,951
Change of assumptions	441,520	-
Net difference between projected and actual earnings on FRS Plan investments	1,886,500	-
Changes in proportion and differences between University contributions and proportionate share of contributions	896,853	-
University FRS contributions subsequent to the measurement date	765,793	-
Total	<u>\$ 4,549,474</u>	<u>\$ 67,951</u>

The deferred outflows of resources totaling \$765,793, resulting from University contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 620,852
2019	620,852
2020	1,356,326
2021	895,929
2022	168,040
Thereafter	53,731
Total	<u>\$ 3,715,730</u>

Actuarial Assumptions. The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.60 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	100%			
Assumed inflation - Mean			2.6%	1.9%

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

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

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60 percent) or 1 percentage point higher (8.60 percent) than the current rate:

	<u>1% Decrease (6.60%)</u>	<u>Current Discount Rate (7.60%)</u>	<u>1% Increase (8.60%)</u>
University's proportionate share of the net pension liability	\$13,436,510	\$7,298,216	\$2,188,897

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

HIS Pension Plan

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

Benefits Provided. For the fiscal year ended June 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2017, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The University contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The University's contributions to the HIS Plan totaled \$143,019 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the University reported a liability of \$3,087,156 for its proportionate share of the net pension liability. The current portion of the net pension liability is the University's proportionate share of benefit payments expected to be paid within one year, net of the University's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The University's proportionate share of the net pension liability was based on the University's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the University's proportionate share was 0.026488765 percent, which was an increase of 0.001882654 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the University recognized pension expense of \$327,998. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 7,031
Change of assumptions	484,453	
Net difference between projected and actual earnings on HIS Plan investments	1,561	-
Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions	371,574	-
University HIS contributions subsequent to the measurement date	143,019	-
Total	<u>\$ 1,000,607</u>	<u>\$ 7,031</u>

The deferred outflows of resources totaling \$143,019 resulting from University contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 157,265
2019	157,265
2020	156,968
2021	156,825
2022	125,512
Thereafter	96,722
Total	<u>\$ 850,557</u>

Actuarial Assumptions. The total pension liability at July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal bond rate	2.85 percent

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

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

Discount Rate. The discount rate used to measure the total pension liability was 2.85 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate

selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 3.80 percent from the prior measurement date.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 2.85 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	<u>1% Decrease (1.85%)</u>	<u>Current Discount Rate (2.85%)</u>	<u>1% Increase (3.85%)</u>
University's proportionate share of the net pension liability	\$3,541,669	\$3,087,156	\$2,709,935

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

12. Retirement Plans – Defined Contribution Pension Plans

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2016-17 fiscal year were as follows:

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

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the University.

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

The University's Investment Plan pension expense totaled \$221,244 for the fiscal year ended June 30, 2017.

State University System Optional Retirement Program. Section 121.35, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible university instructors and administrators. The Program is designed to aid State universities in recruiting employees by offering more portability to employees not expected to remain in FRS for 8 or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes 5.14 percent of the participant's salary to the participant's account, 2.83 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover administrative costs, for a total of 7.98 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The University's contributions to the Program totaled \$653,579, and employee contributions totaled \$415,262 for the 2016-17 fiscal year.

13. Construction Commitments

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

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Heiser Science addition	\$ 9,705,585	\$ 7,011,326	\$ 2,694,259

14. Operating Lease Commitments

The University leased land under an operating lease, which expires in 2056. This leased asset and the related commitments are not reported on the University's statement of net position. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from this lease agreement are contingent upon future appropriations. The lease is between New College of Florida and the Sarasota-Manatee Airport Authority. Every fifth year the annual lease payment is adjusted based on the Consumer Price Index. Future minimum lease commitments for this noncancelable operating lease are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 98,490
2019	98,490
2020	98,490
2021	98,490
2022	98,490
2023-2027	492,449
2028-2032	492,449
2033-2037	492,449
2038-2042	492,449
2043-2047	492,449
2048-2052	492,449
2053-2056	393,959
Total Minimum Payments Required	\$ 3,841,103

15. Risk Management Programs

The University 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. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2016-17 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$85 million for named windstorm and flood through February 14, 2017, and increased to \$92.5 million starting February 15, 2017. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million through February 14, 2017, and increased to

\$225 million starting February 15, 2017; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past 3 fiscal years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain healthcare services through participation in the State group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

16. Functional Distribution of Operating Expenses

The functional classification of an operating expense (instruction, research, 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 research and 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	\$ 10,989,408
Research	814,149
Academic Support	2,749,921
Student Services	4,150,948
Institutional Support	7,586,677
Operation and Maintenance of Plant	4,277,850
Scholarships and Fellowships	1,396,869
Depreciation	3,480,993
Auxiliary Enterprises	4,833,936
Total Operating Expenses	\$ 40,280,751

17. Blended Component Unit

The University has one blended component unit as discussed in Note 1. The following financial information is presented net of eliminations for the University's blended component unit:

Condensed Statement of Net Position

	New College of Florida Development Corporation	University	Eliminations	Total
Assets:				
Due From University / Blended CU	\$ 3,025,962	\$ -	\$ (3,025,962)	\$ -
Other Current Assets	1,671,769	14,409,558	(1,671,769)	14,409,558
Capital Assets, Net	-	79,194,421	-	79,194,421
Other Noncurrent Assets	21,481,112	594,924	(21,481,112)	594,924
Total Assets	26,178,843	94,198,903	(26,178,843)	94,198,903
Deferred Outflows of Resources	2,209,315	5,550,081	-	7,759,396
Liabilities:				
Due To University / Blended CU	-	3,025,962	(3,025,962)	-
Other Current Liabilities	1,124,397	3,484,287	-	4,608,684
Noncurrent Liabilities	26,967,555	41,549,687	(23,152,881)	45,364,361
Total Liabilities	28,091,952	48,059,936	(26,178,843)	49,973,045
Deferred Inflows of Resources	-	74,982	-	74,982
Net Position:				
Net Investment in Capital Assets	-	53,616,181	-	53,616,181
Restricted - Expendable	296,206	1,486,755	-	1,782,961
Unrestricted	-	(3,488,870)	-	(3,488,870)
Total Net Position	\$ 296,206	\$ 51,614,066	\$ -	\$ 51,910,272

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

	New College of Florida Development Corporation	University	Eliminations	Total
Operating Revenues	\$ 1,240,076	\$ 9,977,742	\$ -	\$ 11,217,818
Depreciation Expense	-	(3,480,993)	-	(3,480,993)
Other Operating Expenses	(17,641)	(36,782,117)	-	(36,799,758)
Operating Income (Loss)	1,222,435	(30,285,368)	-	(29,062,933)
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	-	24,268,707	-	24,268,707
Interest Expense	(1,222,435)	(633)	-	(1,223,068)
Other Nonoperating Expense	(2,491)	(63,724)	-	(66,215)
Net Nonoperating Revenues (Expenses)	(1,224,926)	24,204,350	-	22,979,424
Other Revenues	-	4,778,348	-	4,778,348
Decrease in Net Position	(2,491)	(1,302,670)	-	(1,305,161)
Net Position, Beginning of Year	298,697	52,916,736	-	53,215,433
Net Position, End of Year	\$ 296,206	\$ 51,614,066	\$ -	\$ 51,910,272

Condensed Statement of Cash Flows

	New College of Florida Development Corporation	University	Eliminations	Total
Net Cash Provided (Used) by:				
Operating Activities	\$ 2,005,576	\$ (25,085,398)	\$ -	\$ (23,079,822)
Noncapital Financing Activities	-	24,263,420	-	24,263,420
Capital and Related Financing Activities	(2,005,576)	269,986	-	(1,735,590)
Investing Activities	-	1,222,359	-	1,222,359
Net Increase in Cash and Cash Equivalents	-	670,367	-	670,367
Cash and Cash Equivalents, Beginning of Year	-	1,465,565	-	1,465,565
Cash and Cash Equivalents, End of Year	\$ -	\$ 2,135,932	\$ -	\$ 2,135,932

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	\$ -	\$ 5,575,000	\$ 5,575,000	0%	\$ 13,419,429	41.5%
7/1/2013	-	7,028,000	7,028,000	0%	14,126,788	49.7%
7/1/2015	-	12,263,000	12,263,000	0%	15,939,956	76.9%

Note: (1) The entry-age cost actuarial method was used to calculate the actuarial accrued liability.

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

	2016 (1)	2015 (1)	2014 (1)	2013 (1)
University's proportion of the FRS net pension liability	0.028903737%	0.026926709%	0.025391772%	0.019864042%
University's proportionate share of the FRS net pension liability	\$ 7,298,216	\$ 3,477,946	\$ 1,549,271	\$ 3,419,486
University's covered payroll (2)	\$ 15,940,855	\$ 15,302,021	\$ 14,276,629	\$ 13,288,324
University's proportionate share of the FRS net pension liability as a percentage of its covered payroll	45.78%	22.73%	10.85%	25.73%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	84.88%	92.00%	96.09%	88.54%

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

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

Schedule of University Contributions – Florida Retirement System Pension Plan

	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 765,793	\$ 704,864	\$ 656,496	\$ 556,188
FRS contributions in relation to the contractually required contribution	(765,793)	(704,864)	(656,496)	(556,188)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
University's covered payroll (2)	\$ 16,540,148	\$ 15,940,855	\$ 15,302,021	\$ 14,276,629
FRS contributions as a percentage of covered payroll	4.63%	4.42%	4.29%	3.90%

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

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

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

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
University's proportion of the HIS net pension liability	0.026488765%	0.024606111%	0.022834094%	0.020786550%
University's proportionate share of the HIS net pension liability	\$ 3,087,156	\$ 2,509,436	\$ 2,135,044	\$ 1,809,742
University's covered payroll (2)	\$ 7,904,077	\$ 7,215,699	\$ 6,641,607	\$ 6,011,544
University's proportionate share of the HIS net pension liability as a percentage of its covered payroll	39.06%	34.78%	32.15%	30.10%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	0.97%	0.50%	0.99%	1.78%

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

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

**Schedule of University Contributions –
Health Insurance Subsidy Pension Plan**

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 143,019	\$ 135,772	\$ 94,060	\$ 78,222
HIS contributions in relation to the contractually required HIS contribution	(143,019)	(135,772)	(94,060)	(78,222)
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll (2)	\$ 8,350,415	\$ 7,904,077	\$ 7,215,699	\$ 6,641,607
HIS contributions as a percentage of covered payroll	1.71%	1.72%	1.30%	1.18%

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

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

1. Schedule of Funding Progress – Other Postemployment Benefit Plan

The July 1, 2015, unfunded actuarial accrued liability of \$12,263,000 was significantly higher than the July 1, 2013, liability of \$7,028,000 as a result of (1) the per capita claims cost assumption increased, (2) retiree contributions were not as high as expected (3) the healthcare trend rate assumption was revised, and (4) certain demographic assumptions were revised (retirement rates, termination rates, etc.).

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

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

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

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



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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



Phone: (850) 412-2722
Fax: (850) 488-6975

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New College of 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, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated January 24, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the blended and discretely presented component units, as described in our report on the University'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 University'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 University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 University'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 University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University'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 University's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
January 24, 2018