

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2018-174
March 2018

COLLEGE OF CENTRAL 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. James D. Henningsen served as President of the College of Central Florida and the following individuals served as Members of the Board of Trustees:

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The team leader was Jenna L. Pietras, CFE, and the audit was supervised by Denita K. Tyre, CPA.

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

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COLLEGE OF CENTRAL 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	46
Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan	46
Schedule of College Contributions – Florida Retirement System Pension Plan	47
Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan	47
Schedule of College Contributions – Health Insurance Subsidy Pension Plan	47
Notes to Required Supplementary Information	48
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 <i>GOVERNMENT AUDITING STANDARDS</i>	49
Internal Control Over Financial Reporting	49
Compliance and Other Matters	50
Purpose of this Report	50

SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2017. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

AUDIT METHODOLOGY

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



Sherrill F. Norman, CPA
Auditor General

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of College of Central Florida, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the blended and discretely presented component units. The financial statements of The Appleton Cultural Center, Inc., a blended component unit, represent 1 percent or less of the assets, net position, and revenues, reported for the College of Central Florida. The financial statements of the discretely presented component unit represent 100 percent of the transactions and account balances of the discretely presented component unit's 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 College of Central 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 Matter

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 College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of College Contributions – Florida Retirement System Pension Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of College Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors 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 March 23, 2018, on our consideration of the College of Central Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF 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 College of Central Florida's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 23, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 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 College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2017, and June 30, 2016, which includes its blended component unit, The Appleton Cultural Center, Inc. for fiscal years ended December 31, 2016, and December 31, 2015. The MD&A also includes the financial activity of the College of Central Florida Foundation, Inc. (discretely presented component unit), for the fiscal years ended December 31, 2016, and December 31, 2015.

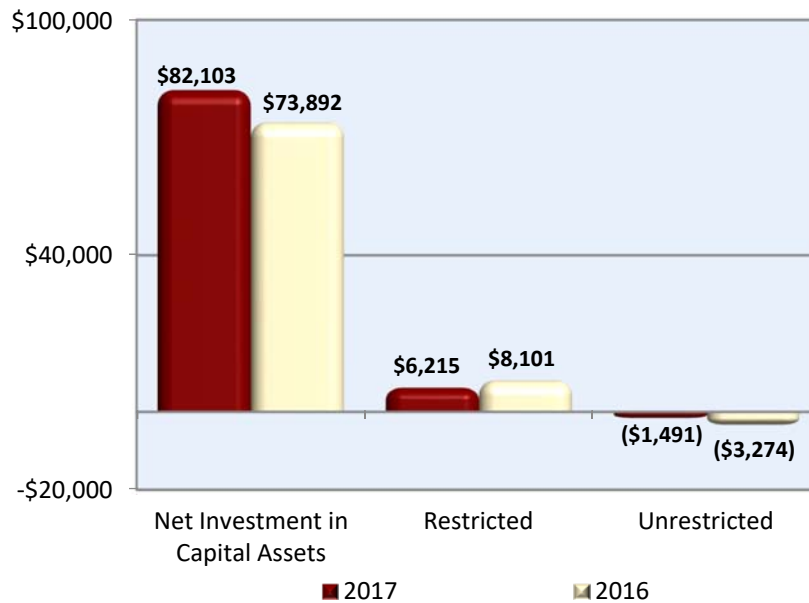
FINANCIAL HIGHLIGHTS

The College's assets and deferred outflows of resources totaled \$117 million at June 30, 2017. This balance reflects a \$15.2 million, or 14.9 percent, increase as compared to the 2015-16 fiscal year, resulting primarily from an increase in net capital assets of \$9.2 million and an increase in deferred outflows of resources of \$4.2 million. While assets and deferred outflows of resources grew, liabilities and deferred inflows of resources increased by \$7.1 million, or 30.6 percent, totaling \$30.1 million at June 30, 2017, resulting from an increase in net pension liability for Florida Retirement System (FRS) and Health Insurance Subsidy (HIS) of \$6.8 million, accounts payable of \$1.1 million, and retainage payable of \$0.8 million, offset by a decrease in deferred inflows of resources of \$1.3 million. As a result, the College's net position increased by \$8.1 million, resulting in a year-end balance of \$86.8 million.

The College's operating revenues totaled \$14 million for the 2016-17 fiscal year, representing a \$1.2 million, or 9.7 percent increase compared to the 2015-16 fiscal year primarily due to an increase in grants and contracts of \$0.3 million and the increase in auxiliary enterprise revenue. Operating expenses totaled \$58.3 million for the 2016-17 fiscal year representing an increase of 3 percent as compared to the 2015-16 fiscal year due to an overall increase of operating expenses offset by a \$1.1 million decrease in scholarships and waivers for a net increase in operating expenses of \$1.7 million as compared to the 2015-16 fiscal year.

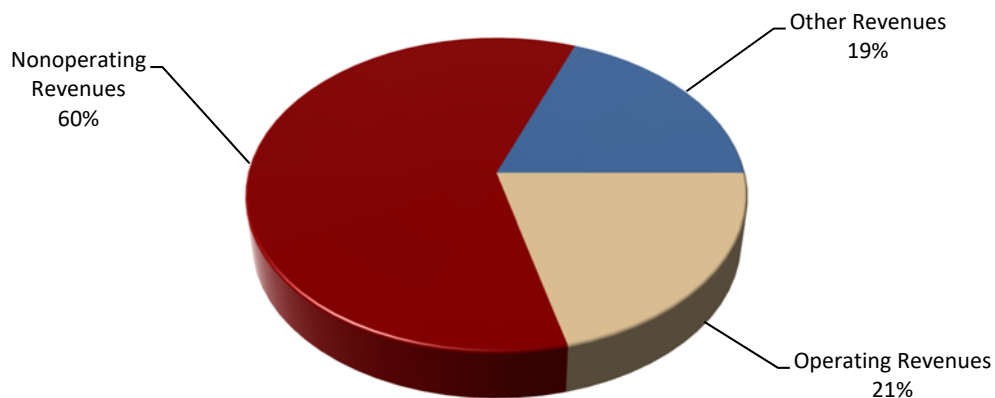
Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, is shown in the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

Net Position: College
(In Thousands)



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

Total Revenues: College
2016-17 Fiscal Year



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 35, the College's financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, provide information on the College as a whole, present a long-term view of the College's finances, and include activities for the following entities:

- College of Central Florida (Primary Institution) – Most of the programs and services generally associated with a college fall into this category, including instruction, public service, and support services.
- The Appleton Cultural Center, Inc. (Blended Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida. Based on the application of the criteria for determining component units. The Appleton Cultural Center, Inc. is included within the College's reporting entity as a blended component unit.
- College of Central Florida Foundation, Inc. (Discretely Presented Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida.

Information regarding these component units is presented in the notes to financial statements.

The Statement of Net Position

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

The following summarizes assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the College and its discretely presented component unit for the respective fiscal years ended:

Condensed Statement of Net Position at
(In Thousands)

	College		Component Unit	
	6-30-17	6-30-16	12-31-16	12-31-15
Assets				
Current Assets	\$ 19,495	\$ 15,292	\$ 3,114	\$ 3,068
Capital Assets, Net	83,599	74,432	24,054	20,907
Other Noncurrent Assets	5,055	7,481	71,092	66,561
Total Assets	108,149	97,205	98,260	90,536
Deferred Outflows of Resources	8,808	4,587	-	-
Liabilities				
Current Liabilities	5,165	3,639	453	413
Noncurrent Liabilities	24,107	17,292	1,872	2,122
Total Liabilities	29,272	20,931	2,325	2,535
Deferred Inflows of Resources	858	2,142	-	-
Net Position				
Net Investment in Capital Assets	82,103	73,892	22,934	19,657
Restricted	6,215	8,101	61,983	57,878
Unrestricted	(1,491)	(3,274)	11,018	10,466
Total Net Position	\$ 86,827	\$ 78,719	\$ 95,935	\$ 88,001
Change in Net Position	\$ 8,108	10.3%	\$ 7,934	9.0%

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

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

The following summarizes the activities of the College and its discretely presented component unit for the respective fiscal years ended:

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

(In Thousands)

	College		Component Unit	
	6-30-17	6-30-16	12-31-16	12-31-15
Operating Revenues	\$ 13,951	\$ 12,721	\$ 5,311	\$ 1,933
Less, Operating Expenses	58,346	56,675	4,378	3,655
Operating Income (Loss)	(44,395)	(43,954)	933	(1,722)
Net Nonoperating Revenues	39,764	40,809	6,095	375
Income (Loss) Before Other Revenues	(4,631)	(3,145)	7,028	(1,347)
Other Revenues	12,739	5,122	906	444
Net Increase (Decrease) In Net Position	8,108	1,977	7,934	(903)
Net Position, Beginning of Year	78,719	76,742	88,001	88,904
Net Position, End of Year	<u>\$ 86,827</u>	<u>\$ 78,719</u>	<u>\$ 95,935</u>	<u>\$ 88,001</u>

Operating Revenues

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

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

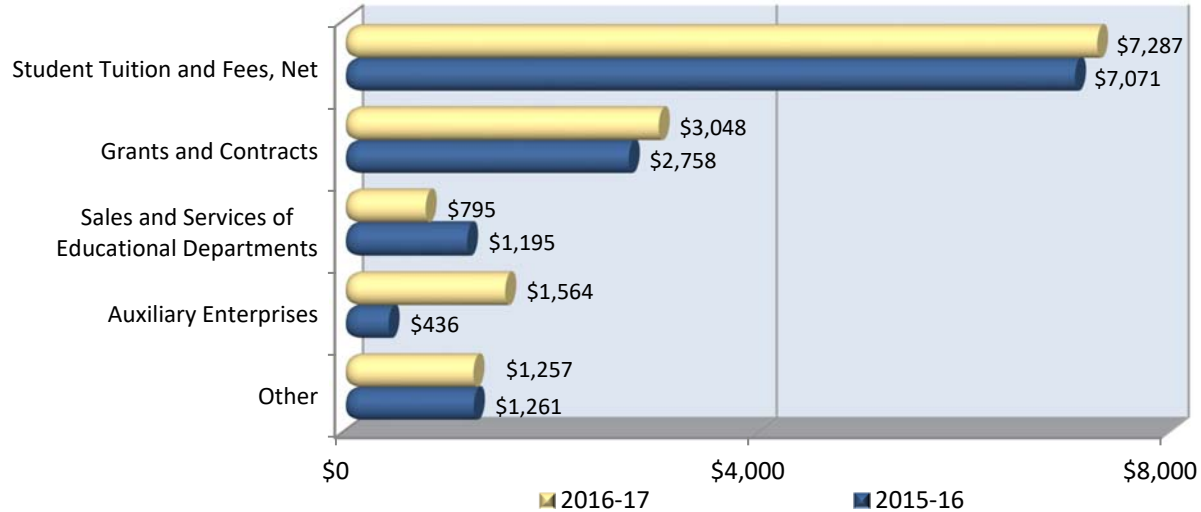
**Operating Revenues
For the Fiscal Years Ended**

(In Thousands)

	College		Component Unit	
	6-30-17	6-30-16	12-31-16	12-31-15
Student Tuition and Fees, Net	\$ 7,287	\$ 7,071	\$ -	\$ -
Grants and Contracts	3,048	2,758	3,590	582
Sales and Services of Educational Departments	795	1,195	-	-
Auxiliary Enterprises	1,564	436	-	-
Other	1,257	1,261	1,721	1,351
Total Operating Revenues	<u>\$ 13,951</u>	<u>\$ 12,721</u>	<u>\$ 5,311</u>	<u>\$ 1,933</u>

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

Operating Revenues: College
(In Thousands)



Operating Expenses

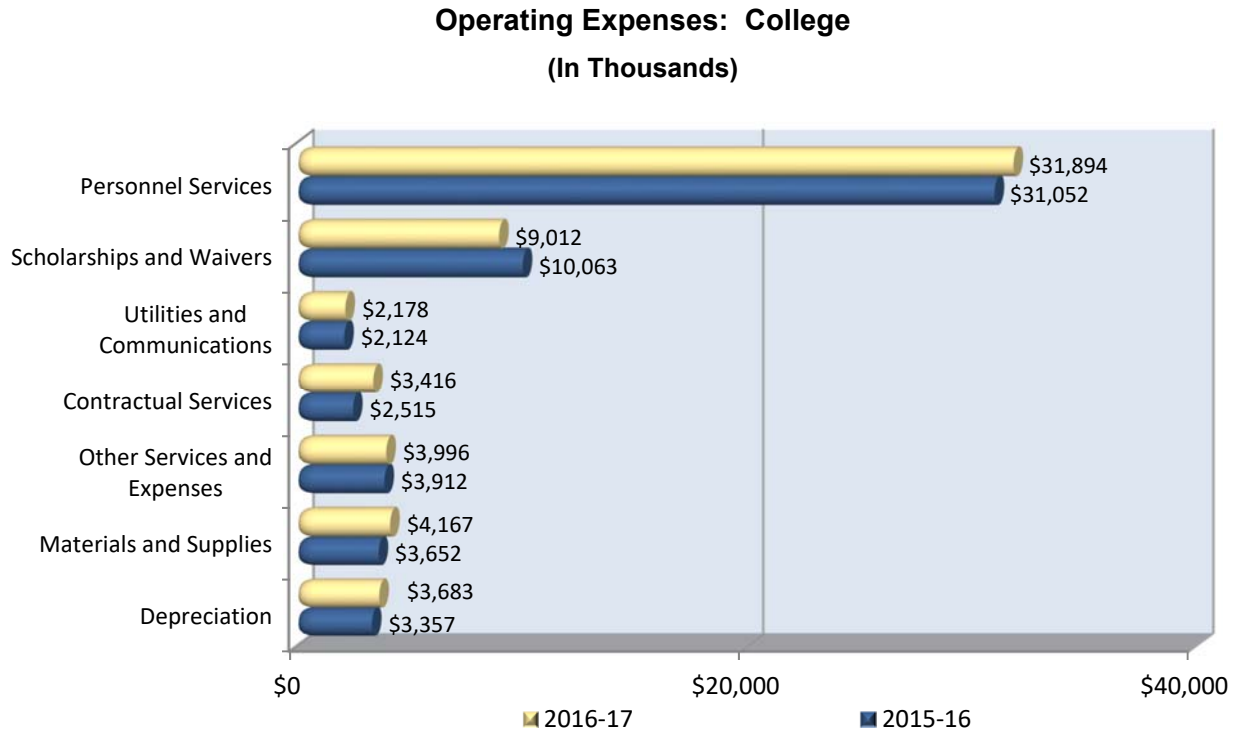
Expenses are categorized as operating or nonoperating. The majority of the College's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The College has chosen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

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

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

	College		Component Unit	
	6-30-17	6-30-16	12-31-16	12-31-15
Personnel Services	\$ 31,894	\$ 31,052	\$ -	\$ -
Scholarships and Waivers	9,012	10,063	992	926
Utilities and Communications	2,178	2,124	-	-
Contractual Services	3,416	2,515	574	415
Other Services and Expenses	3,996	3,912	2,468	1,971
Materials and Supplies	4,167	3,652	196	193
Depreciation	3,683	3,357	148	150
Total Operating Expenses	\$ 58,346	\$ 56,675	\$ 4,378	\$ 3,655

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



College operating expense changes were the result of an increase of \$0.5 million in materials and supplies, along with an increase of \$0.9 million in contractual services. The College also had a decrease in scholarship and waivers of \$1.1 million when compared to the 2015-16 fiscal year, which was primarily due to a decrease of \$1.4 million in Pell grants during the 2016-17 fiscal year.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2016-17 and 2015-16 fiscal years:

Nonoperating Revenues (Expenses): College		
For the Fiscal Years		
(In Thousands)		
	2016-17	2015-16
State Noncapital Appropriations	\$ 22,773	\$ 22,396
Federal and State Student Financial Aid	15,034	17,623
Gifts and Grants	1,703	508
Investment Income, Net	253	127
Other Nonoperating Revenues	7	168
Interest on Capital Asset-Related Debt	(6)	(13)
Net Nonoperating Revenues	\$ 39,764	\$ 40,809

The College's nonoperating revenues and expenses decreased by \$1 million when compared to the 2015-16 fiscal year due mainly to a decline in Federal and State student financial aid.

Other Revenues

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

Other Revenues: College For the Fiscal Years		
(In Thousands)		
	2016-17	2015-16
State Capital Appropriations	\$ 8,480	\$ 2,742
Capital Grants, Contracts, Gifts, and Fees	3,728	1,849
Other Revenues	531	531
Total	\$ 12,739	\$ 5,122

Changes in other revenues were the result of State capital appropriations increasing \$5.7 million, or 209.3 percent, along with an increase of \$1.9 million in capital grants, contracts, gifts, and fees. These increases were due mainly to the receipt of Public Education Capital Outlay (PECO) appropriations and private gifts for the Levy Center construction.

The Statement of Cash Flows

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

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

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

	<u>2016-17</u>	<u>2015-16</u>
Cash Provided (Used) by:		
Operating Activities	\$ (40,641)	\$ (40,738)
Noncapital Financing Activities	40,061	41,428
Capital and Related Financing Activities	1,840	182
Investing Activities	<u>241</u>	<u>181</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,501	1,053
Cash and Cash Equivalents, Beginning of Year	<u>17,207</u>	<u>16,154</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 18,708</u></u>	<u><u>\$ 17,207</u></u>

Major sources of funds came from net student tuition and fees (\$7.2 million), grants and contracts (\$1.3 million), State noncapital appropriations (\$22.8 million), Federal and State student financial aid (\$15.1 million), and State capital appropriations (\$10 million). Major uses of funds were for payments to suppliers (\$11.2 million), payments to employees and for employee benefits (\$30.5 million), payments for scholarships (\$9 million), and purchases of capital assets (\$11.5 million).

Changes in cash and cash equivalents were mainly the result of the College's cash flows from a decrease in noncapital financing activities by \$1.4 million due primarily to the \$3.1 million decrease in Federal and State student financial aid offset by the \$1.7 increase in gifts and grants received for other than capital endowment purposes.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION
--

Capital Assets

At June 30, 2017, the College had \$150.1 million in capital assets, less accumulated depreciation of \$66.5 million, for net capital assets of \$83.6 million. Depreciation charges for the current fiscal year totaled \$3.7 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

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

	<u>2017</u>	<u>2016</u>
Land	\$ 14,254	\$ 14,254
Construction in Progress	14,994	3,821
Buildings	49,025	51,061
Other Structures and Improvements	3,544	3,435
Furniture, Machinery, and Equipment	1,001	949
Assets Under Capital Lease	<u>781</u>	<u>912</u>
Capital Assets, Net	<u><u>\$ 83,599</u></u>	<u><u>\$ 74,432</u></u>

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

Capital Expenses and Commitments

Major capital expenses through June 30, 2017, were incurred on the following project:

- Levy campus building with a total commitment of \$16.4 million of which \$15 million had been paid as of June 30.

The College's major construction commitment at June 30, 2017, was as follows:

	Amount (In Thousands)
Total Committed	\$ 16,352
Completed to Date	(14,994)
Balance Committed	\$ 1,358

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

Debt Administration

The College had an 80 percent decrease, from \$0.5 million to \$0.1 million, in the outstanding capital lease payable at June 30, 2017.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the 2017-18 fiscal year. The Board of Trustees approved a budget with no increase in tuition and fee rates for the 2017-18 fiscal year.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, financial statements and notes thereto, or requests for additional financial information should be addressed to Francis J. Mazur III, MS-CIS, CPA, Vice President of Administration and Finance, College of Central Florida, 3001 SW College Road, Ocala, Florida 34474.

BASIC FINANCIAL STATEMENTS

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

June 30, 2017

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 13,866,287	\$ 3,012,221
Restricted Cash and Cash Equivalents	1,166,348	-
Restricted Investments	142,714	-
Accounts Receivable	904,653	39,217
Due from Other Governmental Agencies	793,041	-
Due from Component Unit	2,121,616	-
Inventories	40,566	-
Prepaid Expenses	438,113	25,346
Other Assets	21,273	36,800
Total Current Assets	19,494,611	3,113,584
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	3,675,127	486,351
Investments	-	1,361,054
Restricted Investments	-	2,299,291
Endowed Investments	600,000	66,656,315
Due From Component Unit	780,343	-
Depreciable Capital Assets, Net	54,350,833	4,891,132
Nondepreciable Capital Assets	29,248,502	19,163,056
Other Assets	-	289,492
Total Noncurrent Assets	88,654,805	95,146,691
TOTAL ASSETS	108,149,416	98,260,275
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	8,808,604	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,755,734	83,892
Accrued Interest Payable	-	4,051
Salary and Payroll Taxes Payable	1,268,554	-
Retainage Payable	777,008	-
Due to Other Governmental Agencies	305,503	-
Unearned Revenue	219,890	36,405
Deposits Held for Others	240,591	67,455
Long-Term Liabilities - Current Portion:		
Bonds Payable	-	145,000
Loan Payable to College	-	100,000
Capital Lease Payable	105,296	-
Compensated Absences Payable	262,860	-
Net Pension Liability	229,904	-
Other Long-Term Liabilities	-	16,421
Total Current Liabilities	5,165,340	453,224

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

June 30, 2017

	<u>College</u>	<u>Component Unit</u>
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	-	975,000
Loan Payable to College	-	780,343
Compensated Absences Payable	3,107,144	-
Other Postemployment Benefits Payable	300,565	-
Net Pension Liability	20,699,364	-
Other Long-Term Liabilities	-	116,601
Total Noncurrent Liabilities	<u>24,107,073</u>	<u>1,871,944</u>
TOTAL LIABILITIES	<u>29,272,413</u>	<u>2,325,168</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	<u>858,207</u>	<u>-</u>
NET POSITION		
Net Investment in Capital Assets	82,103,017	22,934,188
Restricted:		
Nonexpendable:		
Endowment	600,000	58,597,891
Expendable:		
Endowment	142,675	3,384,638
Grants and Loans	467,941	-
Scholarships	3,664	-
Capital Projects	5,000,963	-
Debt Service	139	-
Unrestricted	<u>(1,490,999)</u>	<u>11,018,390</u>
TOTAL NET POSITION	<u>\$ 86,827,400</u>	<u>\$ 95,935,107</u>

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

COLLEGE OF CENTRAL FLORIDA
A Component Unit of the State of Florida
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship		
Allowances of \$8,016,578	\$ 7,287,309	\$ -
Federal Grants and Contracts	2,613,443	-
State and Local Grants and Contracts	87,898	-
Nongovernmental Grants and Contracts	347,096	3,590,828
Sales and Services of Educational Departments	794,497	-
Auxiliary Enterprises	1,563,820	-
Other Operating Revenues	1,257,160	1,720,855
Total Operating Revenues	<u>13,951,223</u>	<u>5,311,683</u>
EXPENSES		
Operating Expenses:		
Personnel Services	31,893,530	-
Scholarships and Waivers	9,011,976	991,506
Utilities and Communications	2,177,604	-
Contractual Services	3,416,473	574,400
Other Services and Expenses	3,996,428	2,468,350
Materials and Supplies	4,167,055	196,015
Depreciation	3,683,488	148,176
Total Operating Expenses	<u>58,346,554</u>	<u>4,378,447</u>
Operating Income (Loss)	<u>(44,395,331)</u>	<u>933,236</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	22,772,777	-
Federal and State Student Financial Aid	15,033,985	-
Gifts and Grants	1,703,029	-
Investment Income, Net	252,904	6,174,225
Gain on Disposal of Capital Assets	6,900	-
Interest on Capital Asset-Related Debt	(5,449)	(79,080)
Net Nonoperating Revenues	<u>39,764,146</u>	<u>6,095,145</u>
Income (Loss) Before Other Revenues	<u>(4,631,185)</u>	<u>7,028,381</u>
State Capital Appropriations	8,480,531	-
Capital Grants, Contracts, Gifts, and Fees	3,728,016	-
Additions to Endowments	530,700	906,201
Total Other Revenues	<u>12,739,247</u>	<u>906,201</u>
Increase in Net Position	<u>8,108,062</u>	<u>7,934,582</u>
Net Position, Beginning of Year	<u>78,719,338</u>	<u>88,000,525</u>
Net Position, End of Year	<u>\$ 86,827,400</u>	<u>\$ 95,935,107</u>

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

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

For the Fiscal Year Ended June 30, 2017

	<u>College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 7,226,372
Grants and Contracts	1,326,528
Payments to Suppliers	(11,184,585)
Payments for Utilities and Communications	(2,177,604)
Payments to Employees	(24,584,592)
Payments for Employee Benefits	(5,909,475)
Payments for Scholarships	(8,989,876)
Auxiliary Enterprises	1,549,792
Sales and Services of Educational Departments	794,497
Other Receipts	1,307,658
Net Cash Used by Operating Activities	<u>(40,641,285)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	22,772,777
Federal and State Student Financial Aid	15,054,106
Federal Direct Loan Program Receipts	11,824,758
Federal Direct Loan Program Disbursements	(11,824,758)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	1,703,029
Other Nonoperating Receipts	530,700
Net Cash Provided by Noncapital Financing Activities	<u>40,060,612</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	10,023,963
Capital Grants, Contracts, Gifts, and Fees	3,728,016
Purchases of Capital Assets	(11,471,403)
Principal Paid on Capital Debt and Leases	(434,675)
Interest Paid on Capital Debt and Leases	(5,449)
Net Cash Provided by Capital and Related Financing Activities	<u>1,840,452</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	240,870
Net Cash Provided by Investing Activities	<u>240,870</u>
Net Increase in Cash and Cash Equivalents	1,500,649
Cash and Cash Equivalents, Beginning of Year	17,207,113
Cash and Cash Equivalents, End of Year	<u><u>\$ 18,707,762</u></u>

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

	<u>College</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (44,395,331)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	3,683,488
Changes in Assets, Liabilities, Deferred Outflows of Resources,	
and Deferred Inflows of Resources:	
Receivables, Net	(1,780,395)
Inventories	1,501
Prepaid Expenses	(46,140)
Accounts Payable	435,196
Salaries and Payroll Taxes Payable	(28,681)
Due to Other Governmental Agencies	(35,348)
Unearned Revenue	71,622
Deposits Held for Others	72,840
Compensated Absences Payable	91,511
Other Postemployment Benefits Payable	18,035
Net Pension Liability	6,776,010
Deferred Outflows of Resources Related to Pensions	(4,221,462)
Deferred Inflows of Resources Related to Pensions	(1,284,131)
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (40,641,285)</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Unrealized losses 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.	\$ (4,773)

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The governing body of the College of Central Florida, a component unit of the State of Florida, is the College Board of Trustees. The Board of Trustees constitutes a corporation and is composed of seven members appointed by the Governor and confirmed by the Senate. The Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by State law and State Board of Education (SBE) rules. However, the Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State laws and SBE rules. The College serves Marion, Citrus, and Levy Counties.

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

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

The Center was audited by other auditors pursuant to Section 1004.70(6), Florida Statutes, and the audited financial statements are available to the public at the College. The financial data blended within the College's accompanying financial statements was derived from the Center's audited financial statements for the fiscal year ended December 31, 2016. Condensed financial statements for the College's blended component unit are shown in a subsequent note.

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

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 31, 2016.

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

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

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

The College's component units use the economic resources measurement focus and the accrual basis of accounting, and follow GASB standards of accounting and financial reporting.

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

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

(net of unrealized gains or losses on investments). Interest on capital asset-related debt is a nonoperating expense. Other revenues generally include revenues for capital construction projects.

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

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

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

Cash and Cash Equivalents – College. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash invested with the State Treasury Special Purpose Investment Account (SPIA), and the State Board of Administration (SBA), Florida PRIME investment pools. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less to be cash equivalents. Under this definition, the College considers amounts invested in the State Treasury SPIA and Florida PRIME investment pools to be cash equivalents.

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

At June 30, 2017, the College reported as cash equivalents at fair value \$10,369,972 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities (Level 3 inputs, as discussed in Note 3.). Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. The State Treasury SPIA investment pool carried a credit rating of A+f by Standard & Poor's, had an effective duration of 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 College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2017, the College reported as cash equivalents \$5,103,333 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 39 days as of June 30, 2017. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at amortized cost.

Section 218.409(8)(a), Florida Statutes, states that "the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days." As of June 30, 2017, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

Cash and Cash Equivalents – Discretely Presented Component Unit. The amount reported for the Foundation as cash and cash equivalents consists of cash, certificates of deposit, money market accounts, and highly liquid fixed income investments with original maturities of three months or less. Cash and cash equivalents that are part of the endowment account are classified as noncurrent assets in the statement of net position as they are not intended to be used for current operating costs.

Cash deposits in excess of Federal Depositors Insurance Corporation (FDIC) limits at individual financial institutions and cash held in money market accounts are uninsured. Management does not consider this risk significant. Certain investments are held in brokerage house investment accounts that are not insured by the FDIC. Cash and cash equivalents, including cash and cash equivalents held in endowment, were held by depositories and the bank balances totaled \$3,498,572, of which

\$2,819,680 was uninsured at December 31, 2016, and uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Foundation's name.

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

- Buildings – 10 or 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - o Computer Equipment – 3 years
 - o Vehicles, Office Machines, and Educational Equipment – 5 years
 - o Furniture – 3 to 7 years
- Assets Under Capital Lease – 20 years

Capital Assets – Discretely Presented Component Unit. The Foundation's land, buildings, and equipment are stated at costs except for donated property, which is stated at fair market value of the date of donation, and is net of accumulated depreciation of \$2,814,423. The Foundation depreciates buildings and equipment using the straight-line method over estimated lives ranging from 5 years for most equipment to 40 years for buildings.

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

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and HIS fiduciary net positions have been determined on the same basis as they are reported by the FRS and the HIS plans. 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. Deficit Net Position in Individual Funds

The College reported an unrestricted net position which included a deficit in the current funds - unrestricted, as shown below. This deficit can be attributed to the recognition of long-term liabilities (i.e., 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	\$ (5,449,668)
Auxiliary Funds	3,958,669
Total	\$ (1,490,999)

3. Investments

The Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; and other investments approved by the Board of Trustees as authorized by law. SBE Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments.

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

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

The Appleton Cultural Center, Inc..

Investments of the Center (blended component unit) totaling \$742,575 are carried at market value and consist of mutual funds invested in United States Government securities. As of December 31, 2016, the mutual fund carried a credit rating of AAA/AA by Standard & Poor's and had a weighted-average life of 6.09 years. A \$600,000 nonexpendable principal balance is maintained in the Center's Fine Arts Endowment Program Fund while the remaining \$142,575 current portion is classified as restricted.

Discretely Presented Component Unit.

Investments of the Foundation at December 31, 2016, include endowed investments of \$66,656,315 in United States Government securities, and corporate debt securities and equities, reported at fair value based on quoted market prices; non-endowed investments of \$3,660,345 held for various unrestricted and restricted purposes, reported at fair value.

Endowed investments are managed by bank trust departments and investment brokerage houses. The Foundation has established an investment policy for its endowed investments and has investment

managers who are required to oversee the management of the portfolios pursuant to its investment policy. The Foundation has a separate investment policy pertaining to the Appleton Museum Family Endowment and the Edith Marie Appleton Endowment, which are managed and governed by a trust company with oversight by the Appleton family. The following information is presented for the Appleton Museum Family Endowment portfolio, the Edith Marie Appleton Endowment portfolio, and other endowed investments:

Investment	Weighted-Average Maturity or Duration (Years)	Credit Quality Rating	Fair Value	Fair Value Measurement Level
Appleton Museum Family Endowment:				
Govt/Corporate Bonds	8.10	AA	\$ 2,341,051	1
Treasury Inflation-Protected Securities	2.77	AAA	299,364	1
High Yield Bonds	5.40	Unrated	710,722	1
Equities	(1)	(1)	9,466,693	1
Global Real Estate	(1)	(1)	743,286	1
Commodities	(1)	(1)	737,942	1
Total Appleton Museum Family Endowment			14,299,058	
Edith Marie Appleton Endowment:				
Govt/Corporate Bonds	8.10	AA	712,291	1
Treasury Inflation-Protected Securities	2.77	AAA	79,954	1
High Yield Bonds	5.40	Unrated	222,338	1
Equities	(1)	(1)	2,841,378	1
Global Real Estate	(1)	(1)	217,628	1
Commodities	(1)	(1)	223,736	1
Total Edith Marie Appleton Endowment			4,297,325	
Other Endowed Investments:				
Investment Grade Fixed Income	2.87	AA	7,291,421	1
Non-Investment Grade Fixed Income	2.53	B	2,861,458	1
Investment Bonds	5.03	BBB	1,811,771	1
Equities	(1)	(1)	27,827,095	1
Balance Funds	(1)	(1)	3,206,420	1
Hedge Funds	(1)	(1)	5,061,767	2
Total Other Endowed Investments			48,059,932	
Total Endowment Investments			\$ 66,656,315	

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

Non-endowed investments are invested separately and managed in accordance with the Foundation's Board of Directors approval for non-endowed investments. The following information is presented for the Foundation's non-endowed investments:

Investments	Weighted-Average Maturity or Duration (Years)	Credit Quality Rating	Fair Value	Fair Value Measurement Level
Non-Endowed Investments:				
Investment Grade Fixed Income	1.37	AA	\$ 3,251,647	1
Non-Investment Grade Fixed Income	2.53	B	129,967	1
Investment Bonds	5.03	BBB	100,456	1
Equities	(1)	(1)	178,275	1
Total Non-Endowed Investments			\$ 3,660,345	

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

The following risks apply to the Foundation's investments:

Interest Rate Risk: Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The weighted-average-maturity method is used to determine the interest rate risk for the Appleton Museum Family Endowment and the Edith Marie Appleton Endowment, and the duration method is used for the other endowed investments.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit for debt securities are shown in the above schedule. Investment ratings are from Moody's Investors Services, Inc., Standard & Poor's, and Fitch. SEI Investments Management Corporation manages the other endowed investments and seeks "real return" for the portfolio. Fixed income securities managed by SEI Investments Management Corporation may invest in debt securities of any credit quality and with a broad range of maturities.

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

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. Disclosure of any issuer of investments that in the aggregate is 5 percent or more of the portfolio is required to be disclosed as a concentration of credit risk. As of December 31, 2016, there were no concentrations of credit risk.

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

- Appleton Museum Family Endowment and Edith Marie Appleton Endowment – Both portfolios include exposure to international equity securities. Fluctuating exchange rates will have an impact on the performance of those investments. No investments are completed with the sole intent to profit from changes in foreign currency exchange rates.

- Other Endowment Investments – The investments managed by SEI Investments Management Corporation are not exposed to this type of risk.

4. Accounts Receivable

Accounts receivable represent amounts for accrued interest, student fee deferments, and accounts receivable – other.

5. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of \$450,000 of Public Education Capital Outlay allocations due from the State for construction of College facilities and \$224,026 due from Federal government for reimbursement of grant expenditures.

6. Due From Component Unit

The College's financial statements are reported for the fiscal year ended June 30, 2017, and the financial statements of the Foundation (discretely presented component unit) are reported for the fiscal year ended December 31, 2016. Accordingly, on the statement of net position, the amount (current) due from component unit of \$2,121,616 reported by the College does not agree with the amount of loan payable to the College of \$100,000 reported by the Foundation. The Foundation committed to a \$2 million gift to the College during fiscal year ended June 30, 2017, but after the Foundation's fiscal year ended December 31, 2016. However, on the statement of net position, the amount (noncurrent) due from component unit reported by the College pursuant to a limited pledge agreement, as explained in Note 9., agrees with the amount (noncurrent) loan payable to the College reported by the Foundation of \$780,343. This is because any advances to the Foundation were completed before December 31, 2016.

7. Capital Assets

Capital assets activity of the College 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	\$ 14,254,357	\$ -	\$ -	\$ 14,254,357
Construction in Progress	3,820,673	11,173,472	-	14,994,145
Total Nondepreciable Capital Assets	\$ 18,075,030	\$ 11,173,472	\$ -	\$ 29,248,502
Depreciable Capital Assets:				
Buildings	\$ 97,118,206	\$ -	\$ -	\$ 97,118,206
Other Structures and Improvements	12,659,472	866,903	-	13,526,375
Furniture, Machinery, and Equipment	7,136,263	810,155	365,919	7,580,499
Assets Under Capital Lease	2,604,386	-	-	2,604,386
Total Depreciable Capital Assets	119,518,327	1,677,058	365,919	120,829,466
Less, Accumulated Depreciation:				
Buildings	46,056,929	2,036,117	-	48,093,046
Other Structures and Improvements	9,224,123	758,728	-	9,982,851
Furniture, Machinery, and Equipment	6,187,162	758,424	365,919	6,579,667
Assets Under Capital Lease	1,692,850	130,219	-	1,823,069
Total Accumulated Depreciation	63,161,064	3,683,488	365,919	66,478,633
Total Depreciable Capital Assets, Net	\$ 56,357,263	\$ (2,006,430)	\$ -	\$ 54,350,833

Capital assets activity of the Foundation (discretely presented component unit) for the fiscal year ended December 31, 2016, is shown in the following table:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 459,640	\$ 345,851	\$ 1,348,000	\$ -	\$ 2,153,491
Works of Art and Historical Treasures	17,009,565	-	-	-	17,009,565
Total Nondepreciable Capital Assets	\$ 17,469,205	\$ 345,851	\$ 1,348,000	\$ -	\$ 19,163,056
Depreciable Capital Assets:					
Buildings	\$ 6,063,065	\$ -	\$ 1,602,000	\$ -	\$ 7,665,065
Furniture, Machinery, and Equipment	40,490	-	-	-	40,490
Total Depreciable Capital Assets	6,103,555	-	1,602,000	-	7,705,555
Less, Accumulated Depreciation:					
Buildings	2,626,457	1	148,176	-	2,774,634
Furniture, Machinery, and Equipment	39,789	-	-	-	39,789
Total Accumulated Depreciation	2,666,246	1	148,176	-	2,814,423
Total Depreciable Capital Assets, Net	\$ 3,437,309	\$ (1)	\$ 1,453,824	\$ -	\$ 4,891,132

Note: (1) Adjustments were made to correct prior year account entries.

8. Unearned Revenue

Unearned revenue at June 30, 2017, in the amount of \$219,890 consists of student tuition and fees along with Federal and State grant funds received prior to fiscal year end related to subsequent accounting periods.

9. Long-Term Liabilities

Long-term liabilities activity of the College 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>
Bonds Payable	\$ 17,000	\$ -	\$ 17,000	\$ -	\$ -
Capital Lease Payable	522,971	-	417,675	105,296	105,296
Compensated Absences Payable	3,278,493	256,697	165,186	3,370,004	262,860
Other Postemployment Benefits Payable	282,530	48,080	30,045	300,565	-
Net Pension Liability	14,153,258	11,796,760	5,020,750	20,929,268	229,904
Total Long-Term Liabilities	\$ 18,254,252	\$ 12,101,537	\$ 5,650,656	\$ 24,705,133	\$ 598,060

The long-term liabilities activity for the Foundation (discretely presented component unit) for the fiscal year ended December 31, 2016, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Enterprise Center Revenue Bonds	\$ 1,250,004	\$ -	\$ 130,004	\$ 1,120,000	\$ 145,000
Loan Payable to College	980,343	-	100,000	880,343	100,000
Other Long-Term Liabilities	137,864	-	4,842	133,022	16,421
Total Long-Term Liabilities	\$ 2,368,211	\$ -	\$ 234,846	\$ 2,133,365	\$ 261,421

Bonds Payable – Foundation. In May 2003, the Foundation issued \$2 million tax-exempt Industrial Development Revenue Bonds, Series 2003A1, through the Florida Development Finance Corporation to construct a 25,400-square foot office building known as the Enterprise Center, for lease on the Ocala Campus of the College. The bonds were refinanced in 2010 for \$1.8 million. The bonds are secured by a first mortgage on real property, first lien on personal property, and assignment of rents, contracts, and leases. The interest rate was fixed at 4.125 percent annually through 2015. The rate was adjusted to 4.2 percent annually in June 2015 and may be adjusted for each subsequent 5-year period through June 2, 2023, to reflect current market interest rates. Annual requirements, based on the rate in effect for the fiscal year ended December 31, 2016, to amortize the Enterprise Center Revenue Bonds are as follows:

Fiscal Year Ending December 31	Enterprise Center Revenue Bonds		
	Principal	Interest	Total
2017	\$ 145,000	\$ 44,915	\$ 189,915
2018	154,998	38,543	193,541
2019	165,000	31,747	196,747
2020	175,002	24,526	199,528
2021	184,998	16,878	201,876
2022-2023	295,002	10,043	305,045
Total	\$ 1,120,000	\$ 166,652	\$ 1,286,652

Loans Payable to College - Foundation. On January 1, 1994, the College entered into a limited pledge agreement with the Foundation (discretely presented component unit) to assist the Foundation with unfunded debt service payments associated with the Foundation's financing of a student housing facility. In December 2003, the Foundation legally obligated itself to the College in the form of an uncollateralized, noninterest bearing advance for amounts provided by the College. During the Foundation's fiscal year ended December 31, 2016, the payable to the College was decreased \$100,000 for the payment made to the College from the Foundation for the repayment of the loan.

Annual requirements to amortize the outstanding loan as of December 31, 2016, are as follows:

Fiscal Year Ending December 31	Amount
2017	\$ 100,000
2018	100,000
2019	100,000
2020	100,000
2021	100,000
2022-2024	380,343
Total	\$ 880,343

Capital Lease Payable. The College acquired energy saving equipment in the amount of \$2,604,386 under a capital lease agreement. The stated interest rate is 1.34 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	Amount
2018	\$ 105,531
Total Minimum Payments	105,531
Less, Amount Representing Interest	235
Present Value of Minimum Payments	\$ 105,296

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only

the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2017, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$3,370,004. The current portion of the compensated absences liability, \$262,860, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

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

Plan Description. The College contributes to an agent multiple-employer defined benefit plan administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Other Postemployment Benefits Plan (OPEB Plan) at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the OPEB Plan and the OPEB Plan 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 the Board of Trustees can amend OPEB Plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2016-17 fiscal year, 57 retirees received postemployment healthcare benefits. The College provided required contributions of \$30,045 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$309,222, which represents 1.69 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 27,594
Amortization of Unfunded Actuarial Accrued Liability	19,858
Annual Required Contribution	47,452
Interest on Net OPEB Obligation	11,067
Adjustment to Annual Required Contribution	(10,439)
Annual OPEB Cost (Expense)	48,080
Contribution Toward the OPEB Cost	(30,045)
Increase in Net OPEB Obligation	18,035
Net OPEB Obligation, Beginning of Year	282,530
Net OPEB Obligation, End of Year	<u><u>\$ 300,565</u></u>

The College'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	\$ 59,457	35.4%	\$ 266,028
2015-16	46,547	64.5%	282,530
2016-17	48,080	62.5%	300,565

Funded Status and Funding Progress. As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$519,707 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$519,707 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$18,306,046 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.84 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 College's OPEB actuarial valuation as of July 1, 2015, used the entry age normal actuarial cost method to estimate the actuarial accrued liability as of June 30, 2017, and the College's 2016-17 fiscal year ARC. 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, an inflation rate of 2.6 percent per year, and an annual healthcare cost trend rate of 6.75 percent pre-Medicare and 5.25 percent Medicare for the 2016-17 fiscal year, reduced by decrements to an ultimate rate of 5 percent in 2020 for pre-Medicare and in 2017 for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2017, was 20 years.

Net Pension Liability. As a participating employer in the Florida Retirement System, the College recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2017, the College's proportionate share of the net pension liabilities totaled \$20,929,268. Note 10. includes a complete discussion of defined benefit pension plans.

10. 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 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 of State colleges.

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

The College's FRS and HIS pension expense totaled \$2,701,789 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.

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

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

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

<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

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
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 College's contributions to the Plan totaled \$1,240,947 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 College reported a liability of \$12,954,714 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 College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was

0.051305639 percent, which was a decrease of 0.003710742 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$2,054,790. In addition, the College 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	\$ 991,914	\$ 120,617
Change of assumptions	783,721	-
Net difference between projected and actual earnings on FRS Plan investments	3,348,636	-
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	608,091	441,024
College FRS contributions subsequent to the measurement date	1,240,947	-
Total	\$ 6,973,309	\$ 561,641

The deferred outflows of resources \$1,240,947, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 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	\$ 768,700
2019	768,700
2020	2,074,207
2021	1,385,280
2022	142,026
Thereafter	31,808
Total	\$ 5,170,721

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 College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60 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>
College's proportionate share of the net pension liability	\$23,850,506	\$12,954,714	\$3,885,407

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

HIS Pension Plan.

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered

retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended June 30, 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 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 College contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The College's contributions to the HIS Plan totaled \$338,039 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 College reported a net pension liability of \$7,974,554 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within one year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 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 College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.068424178 percent, which was a decrease of 0.000676236 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$646,999. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and projected Experience	\$ -	\$ 18,170
Change of assumptions	1,251,410	-
Net difference between projected and actual earnings on HIS Plan investments	4,032	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	241,814	278,396
College contributions subsequent to the measurement date	338,039	-
Total	\$ 1,835,295	\$ 296,566

The deferred outflows of resources totaling \$338,039, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 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:

Fiscal Year Ending June 30	Amount
2018	\$ 205,972
2019	205,972
2020	205,204
2021	204,835
2022	217,725
Thereafter	160,982
Total	\$ 1,200,690

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

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
College's proportionate share of the net pension liability	\$9,148,626	\$7,974,554	\$7,000,139

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

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

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30
FRS, Senior Management Service	7.67

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

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 College's Investment Plan pension expense totaled \$422,840 for the fiscal year ended June 30, 2017.

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes 5.15 percent of the participant's salary to the participant's account, 2.83 percent to cover the unfunded actuarial liability of the FRS pension plan, 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 college to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The College's contributions to the Program totaled \$59,286 and employee contributions totaled \$22,211 for the 2016-17 fiscal year.

12. Construction Commitment

The College's construction commitment at June 30, 2017, was as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Levy Campus Building	<u>\$ 16,352,040</u>	<u>\$ 14,994,145</u>	<u>\$ 1,357,895</u>

13. Risk Management Programs

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

14. Functional Distribution of Operating Expenses

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 18,346,127
Academic Support	3,256,480
Student Services	5,658,012
Institutional Support	10,956,358
Operation and Maintenance of Plant	6,771,205
Scholarships and Waivers	9,011,976
Depreciation	3,683,488
Auxiliary Enterprises	662,908
Total Operating Expenses	<u>\$ 58,346,554</u>

15. Blended Component Unit

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

Condensed Statement of Net Position

	Blended Component Unit		
	The Appleton Cultural Center, Inc. 12/31/2016	College 6/30/2017	Total Primary Government
Assets:			
Other Current Assets	\$ 142,675	\$ 19,351,936	\$ 19,494,611
Other Noncurrent Assets	600,000	88,054,805	88,654,805
Total Assets	742,675	107,406,741	108,149,416
Deferred Outflows of Resources	-	8,808,604	8,808,604
Liabilities:			
Other Current Liabilities	-	5,165,340	5,165,340
Noncurrent Liabilities	-	24,107,073	24,107,073
Total Liabilities	-	29,272,413	29,272,413
Deferred Inflows of Resources	-	858,207	858,207
Net Position:			
Net Investment in Capital Assets	-	82,103,017	82,103,017
Restricted - Nonexpendable	600,000	-	600,000
Restricted - Expendable	142,675	5,472,707	5,615,382
Unrestricted	-	(1,490,999)	(1,490,999)
Total Net Position	\$ 742,675	\$ 86,084,725	\$ 86,827,400

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

	Blended Component Unit		
	The Appleton Cultural Center, Inc. 12/31/2016	College 6/30/2017	Total Primary Government
Operating Revenues	\$ 15,682	\$ 13,935,541	\$ 13,951,223
Depreciation Expense	-	(3,683,488)	(3,683,488)
Other Operating Expenses	(3,650)	(54,659,416)	(54,663,066)
Operating Income (Loss)	12,032	(44,407,363)	(44,395,331)
Nonoperating Revenues (Expenses):			
Nonoperating Revenue (Expenses)	(4,773)	39,774,368	39,769,595
Interest Expense	-	(5,449)	(5,449)
Net Nonoperating Revenues (Expenses)	(4,773)	39,768,919	39,764,146
Other Revenues, Expenses, Gains, and Losses	-	12,739,247	12,739,247
Increase in Net Position	7,259	8,100,803	8,108,062
Net Position, Beginning of Year	735,416	77,983,922	78,719,338
Net Position, End of Year	<u>\$ 742,675</u>	<u>\$ 86,084,725</u>	<u>\$ 86,827,400</u>

Condensed Statement of Cash Flows

	Blended Component Unit		
	The Appleton Cultural Center, Inc. 12/31/2016	College 6/30/2017	Total Primary Government
Net Cash Provided (Used) by:			
Operating Activities	\$ 12,032	\$ (40,653,317)	\$ (40,641,285)
Noncapital Financing Activities	-	40,060,612	40,060,612
Capital and Related Financing Activities	-	1,840,452	1,840,452
Investing Activities	(12,032)	252,902	240,870
Net Increase in Cash and Cash Equivalents	-	1,500,649	1,500,649
Cash and Cash Equivalents, Beginning of Year	100	17,207,013	17,207,113
Cash and Cash Equivalents, End of Year	<u>\$ 100</u>	<u>\$ 18,707,662</u>	<u>\$ 18,707,762</u>

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	\$ -	\$ 324,567	\$ 324,567	0%	\$ 17,161,943	1.89%
7/1/2013	-	558,864	558,864	0%	16,795,383	3.33%
7/1/2015	-	519,707	519,707	0%	18,306,046	2.84%

Note: (1) The OPEB actuarial valuation used the projected unit credit actuarial cost method in the 7/1/2011, and 7/1/2013, valuations and the entry age normal actuarial cost valuation method in the 7/1/2015, valuation to estimate the actuarial accrued liability.

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

	2016 (1)	2015 (1)	2014 (1)	2013 (1)
College's proportion of the FRS net	0.051305639%	0.055016381%	0.051934163%	0.048830117%
College's proportionate share of the FRS	\$ 12,954,714	\$ 7,106,103	\$ 3,168,748	\$ 8,405,836
College's covered payroll (2)	\$ 22,807,049	\$ 23,014,311	\$ 21,522,050	\$ 22,593,907
College's proportionate share of the FRS net pension liability as a percentage of its covered payroll	56.80%	30.88%	14.72%	37.20%
FRS Plan fiduciary net position as a percentage of the 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 college system optional retirement plan members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

**Schedule of College Contributions –
Florida Retirement System Pension Plan**

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required FRS contribution	\$ 1,240,947	\$ 1,398,855	\$ 1,341,346	\$ 1,134,579
FRS contributions in relation to the contractually required contribution	(1,240,947)	(1,398,855)	(1,341,346)	(1,134,579)
FRS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll (2)	\$ 21,851,774	\$ 22,807,049	\$ 23,014,311	\$ 21,522,050
FRS contributions as a percentage of covered payroll	5.68%	6.13%	5.83%	5.27%

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 college system optional retirement plan members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

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

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.068424178%	0.069100414%	0.065385575%	0.069790609%
College's proportionate share of the HIS net pension liability	\$ 7,974,554	\$ 7,047,155	\$ 6,113,711	\$ 6,076,190
College's covered payroll (2)	\$ 21,965,149	\$ 21,971,078	\$ 20,483,450	\$ 21,448,007
College's proportionate share of the HIS net pension liability as a percentage of its covered payroll	36.31%	32.07%	29.85%	28.33%
HIS Plan fiduciary net position as a percentage of the 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 College 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	\$ 338,039	\$ 350,646	\$ 264,145	\$ 223,989
HIS contributions in relation to the contractually required HIS contribution	(338,039)	(350,646)	(264,145)	(223,989)
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll (2)	\$ 21,111,407	\$ 21,965,149	\$ 21,971,078	\$ 20,483,450
HIS contributions as a percentage of covered payroll	1.60%	1.60%	1.20%	1.09%

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 \$519,707 decreased by 7 percent from the July 1, 2013, liability of \$558,864 as a result of revised participation assumptions. The retirement eligibility and rates of retirement have been supplemented to accommodate active employees hired on or after July 1, 2015. Demographic assumptions were revised to be consistent with those used for the Florida Retirement System. Rates of participation in the plan, initial per capita costs of healthcare, and rates of healthcare inflation used to project per capita health care costs have been revised to reflect recent experience.

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

Changes of Assumptions. The long-term expected rate of return was decreased from 7.65 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.



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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF 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 College of Central Florida, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 23, 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 College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 23, 2018