

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2018-197
March 2018

MIAMI DADE COLLEGE

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. Eduardo J. Padrón served as President of Miami Dade College and the following individuals served as Members of the Board of Trustees:

Armando J. Bucelo Jr., Chair from 7-27-16,
Vice Chair through 7-26-16
Armando J. Olivera, Vice Chair from 7-27-16
Helen Aguirre Ferré, Chair through 7-26-16^a
Mariana L. Cancio
Daniel Diaz Leyva
Benjamin León III
Bernardo Navarro

^a Member resigned 4-17-17, position remained vacant at fiscal year end.

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

The team leader was Elias I. Jaime, CPA, and the audit was supervised by Hector J. Quevedo, 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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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether Miami Dade College and its officers with administrative and stewardship responsibilities for College operations had:

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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 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 Miami Dade College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 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 discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit's columns. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Miami Dade College 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 26, 2018, on our consideration of the Miami Dade College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and

other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is 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 Miami Dade College's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 26, 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, and its component unit, the Miami Dade College Foundation, Inc. for the fiscal years ended March 31, 2017, and March 31, 2016.

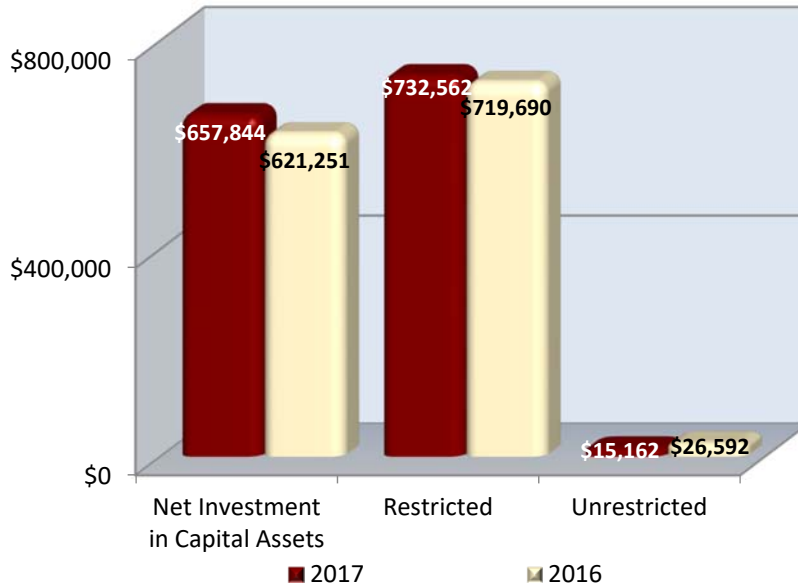
FINANCIAL HIGHLIGHTS

The College's assets and deferred outflows of resources totaled \$1.7 billion at June 30, 2017. This balance reflects a \$67.5 million, or 4 percent, increase as compared to the 2015-16 fiscal year, resulting primarily from an increase in net capital assets of \$36.5 million and an increase in deferred outflows of resources of \$36 million. Liabilities and deferred inflows of resources increased by \$29.4 million, or 9.8 percent, totaling \$329.2 million at June 30, 2017, resulting primarily from increases in net pension liability of \$54.4 million and deposits held for others of \$8.7 million, offset by decreases in deferred inflows of resources of \$9.8 million and in the liability for cash collateral securities lending of \$28.4 million. As a result, the College's net position increased by \$38 million, resulting in a year-end balance of \$1.4 billion.

The College's operating revenues totaled \$136.5 million for the 2016-17 fiscal year, representing a 6 percent decrease compared to the 2015-16 fiscal year due mainly to a decrease in student tuition and fees. Nonoperating revenues represent 66.7 percent of total revenues and are primarily comprised of State noncapital appropriations and Federal and State student financial aid with a purpose of supporting operating activities. Operating expenses totaled \$478.2 million for the 2016-17 fiscal year, remaining consistent as compared to the 2015-16 fiscal year due mainly to increases in personnel services as a result of salary increases, offset by decreases in scholarships and waivers, as a result of a decrease in student enrollment and other services and expenses.

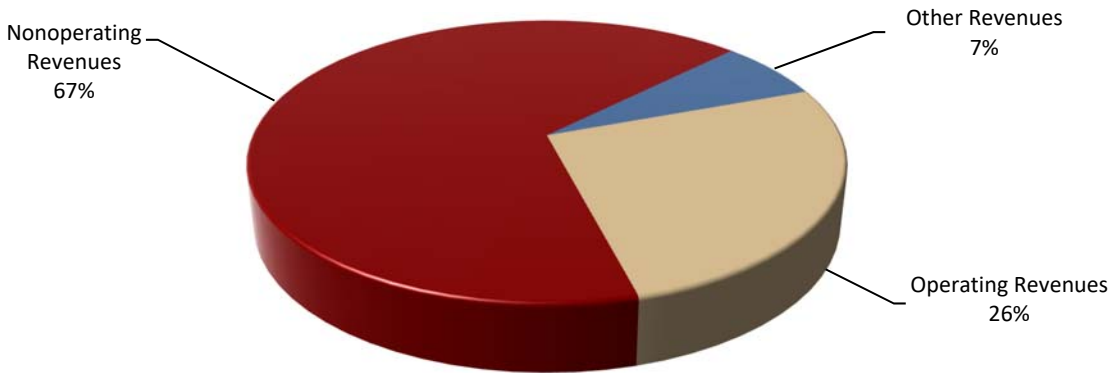
Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, is shown in the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

- Miami Dade College (Primary Institution) – Most of the programs and services generally associated with a college fall into this category, including instruction, public service, and support services.
- Miami Dade College Foundation, Inc. (Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida.

The Statement of Net Position

The statement of net position reflects the assets, 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.

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

Condensed Statement of Net Position at

| | (In Thousands) | | | |
|---------------------------------------|-----------------------|---------------------|-----------------------|-------------------|
| | College | | Component Unit | |
| | 06-30-17 | 06-30-16 | 03-31-17 | 03-31-16 |
| Assets | | | | |
| Current Assets | \$ 204,573 | \$ 211,679 | \$ 16,287 | \$ 29,781 |
| Capital Assets, Net | 658,035 | 621,578 | - | - |
| Other Noncurrent Assets | 802,289 | 800,160 | 130,664 | 113,942 |
| Total Assets | 1,664,897 | 1,633,417 | 146,951 | 143,723 |
| Deferred Outflows of Resources | 69,829 | 33,839 | - | - |
| Liabilities | | | | |
| Current Liabilities | 130,418 | 147,365 | 13,529 | 23,959 |
| Noncurrent Liabilities | 193,736 | 137,532 | - | - |
| Total Liabilities | 324,154 | 284,897 | 13,529 | 23,959 |
| Deferred Inflows of Resources | 5,004 | 14,827 | - | - |
| Net Position | | | | |
| Net Investment in Capital Assets | 657,844 | 621,251 | - | 48,188 |
| Restricted | 732,562 | 719,689 | 128,717 | 67,081 |
| Unrestricted | 15,162 | 26,592 | 4,705 | 4,495 |
| Total Net Position | \$ 1,405,568 | \$ 1,367,532 | \$ 133,422 | \$ 119,764 |

The College's net position increased by \$38 million, or 2.8 percent. Changes in the College's net position were the result of the following factors:

- Net investment in capital assets increased by \$36.6 million, or 5.9 percent, mainly due to the acquisition of capital assets.
- Restricted net position increased by \$12.9 million, or 1.8 percent, mainly due to an increase in endowment investments and scholarships.
- Unrestricted net position decreased by \$11.4 million, or 43 percent, mainly from normal operations.

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 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 | |
|--|---------------------|---------------------|-----------------------|-------------------|
| | 06-30-17 | 06-30-16 | 03-31-17 | 03-31-16 |
| Operating Revenues | \$ 136,467 | \$ 145,137 | \$ 13,994 | \$ 10,869 |
| Less, Operating Expenses | 478,180 | 478,083 | 13,072 | 15,878 |
| Operating Income (Loss) | (341,713) | (332,946) | 922 | (5,009) |
| Net Nonoperating Revenues | 344,451 | 350,790 | 12,736 | (7,832) |
| Income (Loss) Before Other Revenues | 2,738 | 17,844 | 13,658 | (12,841) |
| Other Revenues | 35,298 | 28,138 | - | - |
| Net Increase (Decrease) In Net Position | 38,036 | 45,982 | 13,658 | (12,841) |
| Net Position, Beginning of Year | 1,367,532 | 1,321,550 | 119,764 | 132,605 |
| Net Position, End of Year | <u>\$ 1,405,568</u> | <u>\$ 1,367,532</u> | <u>\$ 133,422</u> | <u>\$ 119,764</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 component unit by source that were used to fund operating activities for the 2016-17 and 2015-16 fiscal years:

Operating Revenues For the Fiscal Years Ended

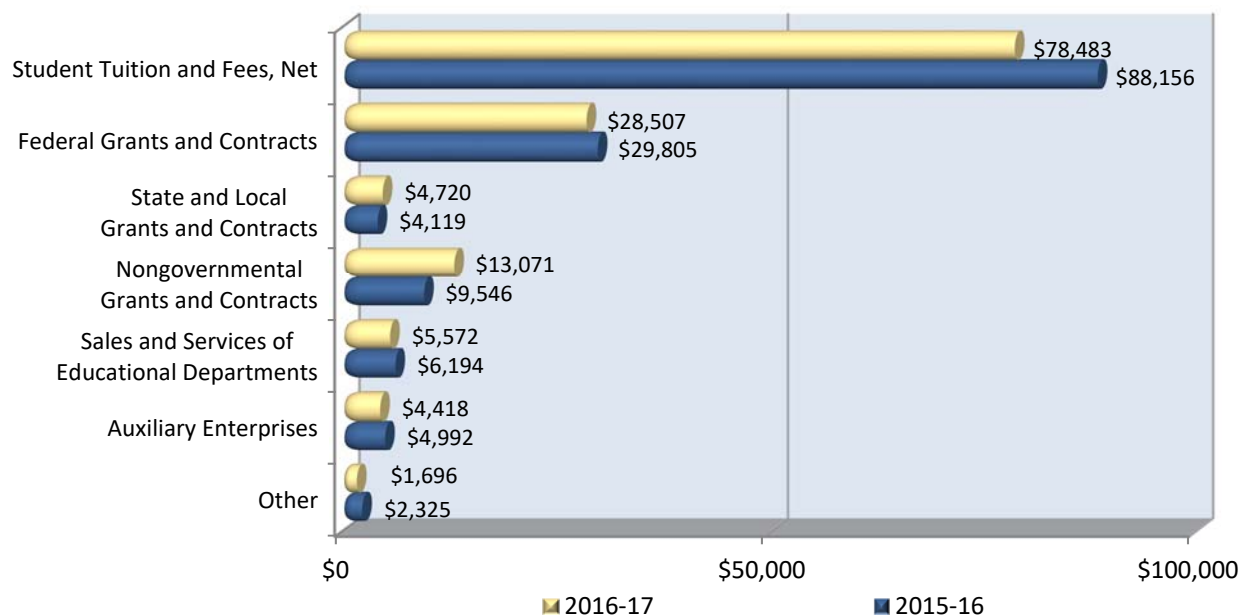
(In Thousands)

| | College | | Component Unit | |
|---|-------------------|-------------------|------------------|------------------|
| | 06-30-17 | 06-30-16 | 03-31-17 | 03-31-16 |
| Student Tuition and Fees, Net | \$ 78,483 | \$ 88,156 | \$ - | \$ - |
| Federal Grants and Contracts | 28,507 | 29,805 | - | - |
| State and Local Grants and Contracts | 4,720 | 4,119 | - | - |
| Nongovernmental Grants and Contracts | 13,071 | 9,546 | - | - |
| Sales and Services of Educational Departments | 5,572 | 6,194 | - | - |
| Auxiliary Enterprises | 4,418 | 4,992 | - | - |
| Other | 1,696 | 2,325 | 13,994 | 10,869 |
| Total Operating Revenues | \$ 136,467 | \$ 145,137 | \$ 13,994 | \$ 10,869 |

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

Operating Revenues: College

(In Thousands)



College operating revenue decreased by \$8.7 million, or 6 percent, compared to the 2015-16 fiscal year, primarily as a result of the following factors:

- Student tuition and fees, net of scholarship allowance, decreased by \$9.7 million or 11 percent, primarily due to a decrease in student enrollment.
- Nongovernmental grants and contracts revenue increased by \$3.5 million, or 36.9 percent, primarily due to an increase in private funding received.

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

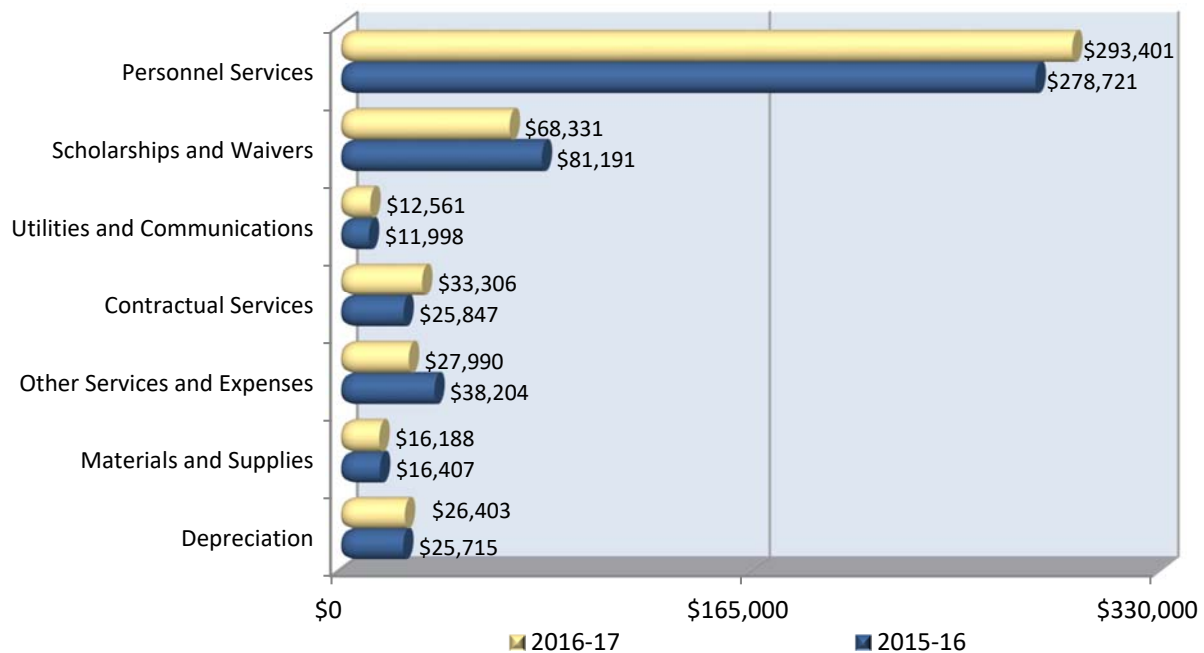
choice of reporting operating expenses in the functional or natural classifications. The College has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to financial statements. The following summarizes operating expenses by natural classification for the 2016-17 and 2015-16 fiscal years:

**Operating Expenses
For the Fiscal Years Ended**

| | (In Thousands) | | | |
|---------------------------------|-------------------|-------------------|------------------|------------------|
| | College | | Component Unit | |
| | 06-30-17 | 06-30-16 | 03-31-17 | 03-31-16 |
| Personnel Services | \$ 293,401 | \$ 278,721 | \$ 2,479 | \$ 1,918 |
| Scholarships and Waivers | 68,331 | 81,191 | 5,192 | 6,200 |
| Utilities and Communications | 12,561 | 11,998 | - | - |
| Contractual Services | 33,306 | 25,847 | - | - |
| Other Services and Expenses | 27,990 | 38,204 | 5,401 | 7,760 |
| Materials and Supplies | 16,188 | 16,407 | - | - |
| Depreciation | 26,403 | 25,715 | - | - |
| Total Operating Expenses | \$ 478,180 | \$ 478,083 | \$ 13,072 | \$ 15,878 |

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

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



College operating expenses remained unchanged compared to the 2015-16 fiscal year, primarily as a result of the following factors:

- Personnel services increased by \$14.7 million, or 5.3 percent, primarily due to an increase in the mandated employer contribution rates for the Florida Retirement System (FRS), new positions, associated payroll tax and benefits, and a salary enhancement program.
- Scholarship and waivers decreased by \$12.9 million, or 15.8 percent, primarily due to a decrease in student enrollment.
- Contractual services increased by \$7.5 million, or 28.9 percent, primarily due to increases in technology and consulting services expenses.
- Other services and expenses decreased by \$10.2 million, or 26.7 percent, primarily due to cost containment measures.

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, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs. 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 | \$ 181,185 | \$ 177,143 |
| Federal and State Student Financial Aid | 142,369 | 162,131 |
| Investment Income | 15,265 | 10,560 |
| Net Realized and Unrealized Gain on Investments | 5,612 | 970 |
| Other Nonoperating Revenues | 36 | 10 |
| Interest on Capital Asset-Related Debt | (16) | (24) |
| Net Nonoperating Revenues | \$ 344,451 | \$ 350,790 |

Net nonoperating revenues decreased by \$6.3 million, or 1.8 percent, compared to the 2015-16 fiscal year, as a result of the following factors:

- State noncapital appropriations increased by \$4 million, or 2.3 percent, which was the net effect of an increase of \$0.2 million in performance based incentive appropriations and \$4.4 million in Lottery revenues, offset by a decrease of \$0.7 million in the Florida College System Program Fund.
- Federal and State student financial aid decreased by \$19.8 million, or 12.2 percent, primarily due to a decrease in the Federal Pell grant program.
- Investment income increased by \$4.7 million, or 44.6 percent, due to favorable investment market conditions.
- Net gain on investments increased by \$4.6 million, or 478.6 percent, due to changes in market conditions.

Other Revenues

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

Other Revenues: College For the Fiscal Years

(In Thousands)

| | <u>2016-17</u> | <u>2015-16</u> |
|--|------------------|------------------|
| State Capital Appropriations | \$ 14,137 | \$ 5,095 |
| Capital Grants, Contracts, Gifts, and Fees | 21,161 | 23,043 |
| Total | <u>\$ 35,298</u> | <u>\$ 28,138</u> |

Other revenues increased by \$7.2 million, or 25.4 percent, compared to the 2015-16 fiscal year, as a result of the following factors:

- State capital appropriations increased by \$9 million, or 177.5 percent, as a result of an increase in Public Educational Capital Outlay funding.
- Capital grants, contracts, gifts, and fees decreased by \$1.9 million, or 8.2 percent, primarily as a result of a decline in student enrollment.

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 For the Fiscal Years

(In Thousands)

| | <u>2016-17</u> | <u>2015-16</u> |
|--|-------------------|-------------------|
| Cash Provided (Used) by: | | |
| Operating Activities | \$ (300,462) | \$ (300,608) |
| Noncapital Financing Activities | 320,075 | 339,449 |
| Capital and Related Financing Activities | (42,382) | (62,226) |
| Investing Activities | (3,266) | 9,955 |
| Net Decrease in Cash and Cash Equivalents | <u>(26,035)</u> | <u>(13,430)</u> |
| Cash and Cash Equivalents, Beginning of Year | 520,837 | 534,267 |
| Cash and Cash Equivalents, End of Year | <u>\$ 494,802</u> | <u>\$ 520,837</u> |

Major sources of funds came from State noncapital appropriations (\$181.2 million), Federal and State student financial aid (\$142.4 million), proceeds from sales and maturities of investments (\$98.6 million), net student tuition and fees (\$75.7 million), grants and contracts (\$33.2 million), Federal Direct Loan Program receipts (\$23.5 million), capital grants and gifts (\$20.9 million), and investment income (\$18.6 million). Major uses of funds were for payments to employees and for employee benefits (\$284.2 million), purchases of investments (\$120.5 million), payments to suppliers of goods and services (\$78.4 million), purchases of capital assets (\$69.2 million), payments for scholarships (\$65.6 million), and disbursements to students for the Federal Direct Loan Program (\$27 million).

During the 2016-17 fiscal year, cash and cash equivalents decreased by \$26 million, when compared to the prior fiscal year. The decrease in cash and cash equivalents and a discussion of the categories of cash flows are as follows:

- Net cash used for operating activities was \$300.5 million, which represents a decrease of \$0.1 million as compared to the 2015-16 fiscal year. The net decrease in cash used was primarily the result of decreases in loans issued to students of \$21.8 million, payments for scholarships of \$15.6 million, and payments to employees of \$3.7 million, offset by decreases in collections of loans from students of \$19.7 million, cash received for tuition and fees of \$12.4 million, and cash received for grants and contracts of \$10.1 million.
- The net cash provided by noncapital financing activities was \$320.1 million, which represents a decrease of \$19.4 million as compared to the 2015-16 fiscal year. The net decrease was a result of a decrease in cash received from Federal and State student financial aid of \$19.8 million, and a decrease of Federal Direct Loan Program receipts of \$14.1 million, offset by an increase in State noncapital appropriations of \$4 million and a decrease of Federal Direct Loan Program disbursements of \$10.4 million.
- The net cash used by capital and related financing activities was \$42.4 million, which represents a decrease of \$19.8 million as compared to the 2015-16 fiscal year. The net decrease in cash used was primarily due to a decrease in purchases of capital assets of \$21 million, offset by a reduction in capital grants and gifts received of \$2.1 million.
- The net cash used by investing activities was \$3.3 million, which represents an increase of \$13.2 million in cash used by investing activities from the prior fiscal year. This net increase in cash used was primarily the result of a decrease in proceeds from sales and maturities of investments of \$20.9 million, offset by an increase in investment earnings of \$6.7 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the College had \$1,124.2 million in capital assets, less accumulated depreciation of \$466.2 million, for net capital assets of \$658 million. Depreciation charges for the current fiscal year totaled \$26.4 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 | \$ 96,740 | \$ 96,740 |
| Works of Art | 85 | - |
| Construction in Progress | 116,004 | 61,326 |
| Buildings | 753,411 | 750,005 |
| Other Structures and Improvements | 33,952 | 33,952 |
| Furniture, Machinery, and Equipment | 69,642 | 66,713 |
| Computer Software | 54,437 | 54,437 |
| Total | \$ 1,124,271 | \$ 1,063,173 |
| Less: Accumulated Depreciation | | |
| Buildings | 367,769 | 352,911 |
| Other Structures and Improvements | 29,481 | 28,509 |
| Furniture, Machinery, and Equipment | 62,209 | 58,760 |
| Computer Software | 6,777 | 1,415 |
| Total | 466,236 | 441,595 |
| Capital Assets, Net | \$ 658,035 | \$ 621,578 |

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

Debt Administration

As of June 30, 2017, the College had \$0.2 million in outstanding bonds payable versus \$0.3 million outstanding bonds payable at the end of the 2015-16 fiscal year, representing a decrease of 41.8 percent.

The State Board of Education issues capital outlay bonds on behalf of the College. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the 2017-18 fiscal year.

On-going efforts to develop new revenue sources and contain costs have served the College well in its commitment to the growth of education programs, improved student access, and overall excellence in service to its students and the community. The conservative budgetary stance taken by the College provides the framework for a focused response in support of our educational mission and provides financial stability in the face of limited economic growth and increased demand for State resources.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to E.H. Levering, Senior Vice Provost of Business Affairs and Chief Financial Officer, Miami Dade College, 11011 S.W. 104th Street, Miami, Florida 33176.

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BASIC FINANCIAL STATEMENTS

MIAMI DADE COLLEGE
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 | \$ 73,258,753 | \$ 5,217,084 |
| Restricted Cash and Cash Equivalents | 36,633,481 | 3,910 |
| Cash Collateral Securities Lending | 5,193,088 | 4,721,015 |
| Accounts Receivable, Net | 20,376,926 | 5,372,187 |
| Notes Receivable, Net | 3,406,356 | - |
| Due from Other Governmental Agencies | 57,123,309 | - |
| Due from Component Unit/College | 7,129,719 | 593,813 |
| Inventories | 48,567 | - |
| Prepaid Expenses | 1,322,416 | - |
| Deposits | 80,148 | - |
| Other Current Assets | - | 379,283 |
| Total Current Assets | 204,572,763 | 16,287,292 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | 384,909,780 | 5,690,015 |
| Endowment Investments | 122,721,198 | 87,382,488 |
| Restricted Other Investments | 227,063,951 | - |
| Other Investments | 60,563,970 | 37,591,075 |
| Notes Receivable, Net | 7,029,826 | - |
| Depreciable Capital Assets, Net | 445,205,987 | - |
| Nondepreciable Capital Assets | 212,829,424 | - |
| Total Noncurrent Assets | 1,460,324,136 | 130,663,578 |
| TOTAL ASSETS | 1,664,896,899 | 146,950,870 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred Amounts Related to Pensions | 69,828,671 | - |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | 37,946,007 | 678,995 |
| Salary and Payroll Taxes Payable | 12,958,236 | - |
| Retainage Payable | 1,802,124 | - |
| Due to Other Governmental Agencies | 287,039 | - |
| Due to Component Unit/College | 434,575 | 8,129,343 |
| Unearned Revenue | 28,998,402 | - |
| Liability for Cash Collateral Securities Lending | 5,193,088 | 4,721,015 |
| Long-Term Liabilities - Current Portion: | | |
| Bonds Payable | 141,000 | - |
| Deposits Held for Others | 24,748,207 | - |
| Compensated Absences Payable | 15,956,357 | - |
| Net Pension Liability | 1,952,465 | - |
| Total Current Liabilities | 130,417,500 | 13,529,353 |

MIAMI DADE COLLEGE
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2017

| | College | Component Unit |
|---------------------------------------|-------------------------|---------------------------|
| LIABILITIES (Continued) | | |
| Noncurrent Liabilities: | | |
| Bonds Payable | 50,000 | - |
| Deposits Held for Others | 5,000 | - |
| Compensated Absences Payable | 16,447,444 | - |
| Other Postemployment Benefits Payable | 9,325,308 | - |
| Net Pension Liability | 167,908,574 | - |
| Total Noncurrent Liabilities | 193,736,326 | - |
| TOTAL LIABILITIES | 324,153,826 | 13,529,353 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred Amounts Related to Pensions | 5,003,500 | - |
| NET POSITION | | |
| Net Investment in Capital Assets | 657,844,411 | - |
| Restricted: | | |
| Nonexpendable: | | |
| Endowment | - | 50,628,641 |
| Expendable: | | |
| Endowment | 122,911,287 | - |
| Grants and Loans | 40,630,164 | - |
| Scholarships | 11,436,902 | 78,088,408 |
| Capital Projects | 557,578,688 | - |
| Debt Service | 4,611 | - |
| Unrestricted | 15,162,181 | 4,704,468 |
| TOTAL NET POSITION | \$ 1,405,568,244 | \$ 133,421,517 |

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

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

| | <u>College</u> | <u>Component Unit</u> |
|---|-------------------------|---------------------------|
| REVENUES | | |
| Operating Revenues: | | |
| Student Tuition and Fees, Net of Scholarship Allowances of \$85,689,949 | \$ 78,482,864 | \$ - |
| Federal Grants and Contracts | 28,506,609 | - |
| State and Local Grants and Contracts | 4,720,152 | - |
| Nongovernmental Grants and Contracts | 13,070,768 | - |
| Sales and Services of Educational Departments | 5,571,868 | - |
| Auxiliary Enterprises | 4,418,167 | - |
| Other Operating Revenues | 1,696,263 | 13,993,908 |
| Total Operating Revenues | 136,466,691 | 13,993,908 |
| EXPENSES | | |
| Operating Expenses: | | |
| Personnel Services | 293,400,671 | 2,478,823 |
| Scholarships and Waivers | 68,331,116 | 5,192,242 |
| Utilities and Communications | 12,561,605 | - |
| Contractual Services | 33,306,110 | - |
| Other Services and Expenses | 27,989,834 | 5,400,764 |
| Materials and Supplies | 16,187,668 | - |
| Depreciation | 26,402,851 | - |
| Total Operating Expenses | 478,179,855 | 13,071,829 |
| Operating Income (Loss) | (341,713,164) | 922,079 |
| NONOPERATING REVENUES (EXPENSES) | | |
| State Noncapital Appropriations | 181,184,795 | - |
| Federal and State Student Financial Aid | 142,369,255 | - |
| Investment Income | 15,264,465 | 1,015,759 |
| Net Realized and Unrealized Gain on Investments | 5,612,468 | 11,720,165 |
| Other Nonoperating Revenues | 35,779 | - |
| Interest on Capital Asset-Related Debt | (15,950) | - |
| Net Nonoperating Revenues | 344,450,812 | 12,735,924 |
| Income Before Other Revenues | 2,737,648 | 13,658,003 |
| State Capital Appropriations | 14,136,640 | - |
| Capital Grants, Contracts, Gifts, and Fees | 21,161,512 | - |
| Total Other Revenues | 35,298,152 | - |
| Increase in Net Position | 38,035,800 | 13,658,003 |
| Net Position, Beginning of Year | 1,367,532,444 | 119,763,514 |
| Net Position, End of Year | \$ 1,405,568,244 | \$ 133,421,517 |

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

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MIAMI DADE COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

| | College |
|---|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Student Tuition and Fees, Net | \$ 75,735,212 |
| Grants and Contracts | 33,229,319 |
| Payments to Suppliers | (65,856,986) |
| Payments for Utilities and Communications | (12,561,605) |
| Payments to Employees | (233,640,853) |
| Payments for Employee Benefits | (50,536,666) |
| Payments for Scholarships | (65,561,728) |
| Loans Issued to Students | (633,260) |
| Collection on Loans to Students | 2,704,164 |
| Auxiliary Enterprises | 4,418,167 |
| Sales and Services of Educational Departments | 5,571,868 |
| Other Receipts | 6,670,080 |
| | (300,462,288) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| State Noncapital Appropriations | 181,184,795 |
| Federal and State Student Financial Aid | 142,369,255 |
| Federal Direct Loan Program Receipts | 23,516,546 |
| Federal Direct Loan Program Disbursements | (26,994,806) |
| | 320,075,790 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| State Capital Appropriations | 6,003,700 |
| Capital Grants and Gifts | 20,921,512 |
| Proceeds from Sale of Capital Assets | 35,779 |
| Purchases of Capital Assets | (69,190,169) |
| Principal Paid on Capital Debt | (137,000) |
| Interest Paid on Capital Debt | (15,950) |
| | (42,382,128) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from Sales and Maturities of Investments | 98,633,946 |
| Purchases of Investments | (120,485,119) |
| Investment Income | 18,585,269 |
| | (3,265,904) |
| Net Decrease in Cash and Cash Equivalents | (26,034,530) |
| Cash and Cash Equivalents, Beginning of Year | 520,836,544 |
| Cash and Cash Equivalents, End of Year | \$ 494,802,014 |

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

| | College |
|---|-------------------------|
| RECONCILIATION OF OPERATING LOSS | |
| TO NET CASH USED BY OPERATING ACTIVITIES | |
| Operating Loss | \$ (341,713,164) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 26,402,851 |
| Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources: | |
| Receivables, Net | (2,747,652) |
| Notes Receivables, Net | 2,070,904 |
| Due from Other Governmental Agencies | (13,068,210) |
| Due from Component Unit | (2,265,727) |
| Inventories | 2,363 |
| Prepaid Expenses | 28,015 |
| Accounts Payable | 11,596,248 |
| Salaries and Payroll Taxes Payable | (1,095,455) |
| Due to Other Governmental Agencies | (1,476,071) |
| Due to Component Unit | 27 |
| Unearned Revenue | 2,769,388 |
| Deposits Held for Others | 8,715,588 |
| Compensated Absences Payable | 1,169,740 |
| Other Postemployment Benefits Payable | 585,702 |
| Net Pension Liability | 54,376,679 |
| Deferred Outflows of Resources Related to Pensions | (35,990,142) |
| Deferred Inflows of Resources Related to Pensions | (9,823,372) |
| NET CASH USED BY OPERATING ACTIVITIES | \$ (300,462,288) |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES | |
| Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows. | \$ 2,291,664 |
| Donation of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows. | \$ 240,000 |

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 Miami Dade College, 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 Miami-Dade County.

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

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

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public 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 March 31, 2017.

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

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

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

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

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

The 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, investment income, net realized and unrealized gains and losses on investments, and other nonoperating revenues. Interest on capital asset-related debt is a nonoperating expense.

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the 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 identified, within its accounting system, amounts paid for tuition and fees by financial aid. The total amount of these third-party payments is deducted from student tuition and fees.

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. 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 highly liquid investments with original maturities of 3 months or less that are not held solely for income or profit to be cash equivalents. Under this definition, the College considers amounts invested in the State Treasury SPIA and 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 \$280,108,978 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 \$195,431,101 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.

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

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

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, deposits held for others, 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 full 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 | \$ (26,328,109) |
| Auxiliary Funds | 41,490,290 |
| Total | \$ 15,162,181 |

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.

The Board of Trustees also adopted an investment policy for the management of endowment assets and other investments, which include investment objectives, permitted types of securities in which the Board may invest, and evaluation criteria necessary to measure the investment performance of the program. Additionally, the College's investment policy provides that the goal of the investment program is to provide a real total return from assets invested that will preserve the purchasing power of endowment assets and other investments, while generating an income stream sufficient to support the established spending requirements. Investments are to be related to the short-, mid-, and long-term needs of the College, while considering the probable safety of their capital as well as the probable income to be derived from the investment. For endowment investments, four asset classes are targeted to ensure the proper level

of diversification within the fund. These asset classes are domestic equity, international equity, domestic fixed-income, and cash and cash equivalents held solely for income or profit. For other investments, the highest priority is placed on the safety of the principal. The College's investment policy also provides investment managers with different investment styles (strategies). During the 2016-17 fiscal year, moneys of the Endowment Fund were invested by 11 investment managers, and other investments were invested by 6 investment managers.

Endowment investments and other investments are reported at a fair value of \$122,721,198 and \$287,627,921, respectively. The reporting of endowment investments at fair value resulted in an unrealized gain of \$11,277,273. The reporting of other investments at fair value resulted in an unrealized loss of \$8,985,609.

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

All of the College's recurring fair value measurements as of June 30, 2017, are valued using quoted market prices (Level 1 inputs), except for domestic and international bonds and notes which are valued using matrix pricing models which may consider quoted prices for similar assets in markets that are not active and inputs other than quoted prices that are observable (Level 2 inputs). Short-term investments and alternative hedge funds, which are valued at the College's proportionate share of the underlying fair value of the hedge fund's net asset value as of the measurement date, are measured at net asset value.

The College's investments at June 30, 2017, are reported as follows:

| | Amount | Fair Value Measurements Using | | |
|--|-----------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments by fair value level | | | | |
| SBA Debt Service Accounts | \$ 4,611 | \$ 4,611 | \$ - | \$ - |
| Federal Agency Obligations | 38,423,945 | 38,423,945 | - | - |
| Obligations of United States Government | | | | |
| Agencies and Instrumentalities - Domestic | 48,996,344 | 48,996,344 | - | - |
| International Government Obligations | 6,500,392 | 6,500,392 | - | - |
| Real Estate | 6,513,577 | 6,513,577 | - | - |
| Bonds and Notes - Domestic | 66,884,185 | - | 66,884,185 | - |
| Bonds and Notes - International | 12,083,796 | - | 12,083,796 | - |
| Stocks and Other Equity Securities - Domestic | 49,422,902 | 49,422,902 | - | - |
| Stocks and Other Equity Securities - International | 59,763,657 | 59,763,657 | - | - |
| Total investments by fair value level | <u>\$ 288,593,409</u> | <u>\$ 209,625,428</u> | <u>\$ 78,967,981</u> | <u>\$ -</u> |
| Investments measured at the net asset value (NAV) | | | | |
| Short-term Investments | 19,763,170 | | | |
| Alternative Hedge Funds (1) | 101,992,540 | | | |
| Total investments measured at NAV | <u>121,755,710</u> | | | |
| Total investments measured at fair value | <u>\$ 410,349,119</u> | | | |

Note: (1) The value of investments held in this fund involve significant uncertainties and judgments and cannot be determined with precision. Due to the inherent uncertainty of valuation, those estimated values may differ from the value that would have been used had a ready market for these investments existed, and the differences could be material.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table:

| Investments measured at the NAV | Fair Value | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|--|-----------------------|-------------------------|--|--------------------------------|
| Short-term investments | \$ 19,763,170 | \$ - | Daily | 1 Day |
| Alternative Hedge Funds: | | | | |
| Carolina Institutional Short Duration | 35,145,039 | - | Daily | By 10 am |
| Carolina Securitized Credit Opportunities | 31,263,134 | - | Monthly | 30 Days |
| Archstone Offshore Fund | 9,008,258 | - | Quarterly | 90 Days |
| Morgan Stanley Opportunistic Mortgage Income | 26,576,109 | - | Quarterly | 60 Days |
| Total investments measured at the NAV | <u>\$ 121,755,710</u> | | | |

Net Asset Value.

GASB Statement No. 72, *Fair Value Measurement and Application*, permits the fair value of certain equity and debt investments that do not have readily determinable fair values to be based on their net asset value (NAV) per share. The investments held at net asset value reflect:

Short-Term Investments: This category includes investments in short-term instruments designed to preserve capital, liquidity, and current income.

Carolina Institutional Short Duration Fund: This fund invests primarily in bonds issued by the U.S. Government or its agencies or instrumentalities. The fair value of the securities are based on one or more pricing services or third-party sources, such as brokers or banks.

Carolina Securitized Credit Opportunities Fund: The primary objective of this fund is to generate an attractive absolute return through investing and trading in the full opportunity set of securitized and structured credit securities, including but not limited to, non-agency and agency residential and commercial mortgage-backed securities, asset-backed securities, and other structured credit fixed-income securities. The fair value of the securities are based on one or more pricing services or third-party sources, such as brokers or banks.

Archstone Offshore Fund: This fund is organized as an exempted company with limited liability whose investment objective is to achieve long-term growth of capital with reduced volatility by allocating its capital among various money managers that, as a group, employ a variety of investment techniques and strategies. The valuation is based upon the value of the partnership's capital account in the investee funds determined from financial information provided by the underlying investee funds or, when this is determined to not be appropriate, alternative fair valuation methods may be used (i.e., liquidity discounted net asset value or discounted cash flow).

Morgan Stanley Opportunistic Mortgage Income Funds: These funds invest primarily in residential mortgage-backed securities, commercial mortgage-backed securities, other commercial real estate debt, collateralized mortgage obligations, stripped mortgage-backed securities, asset-backed securities, and mortgage and non-mortgage-related derivatives. Since the fund invests substantially all its assets in the U.S. Fund, the fair value is based on the value of the U.S. Fund's gross assets less its gross liabilities. Valuation of the assets are based on current market price information derived from third-party sources of market quotations and when current or reliable market price information is unavailable, the investment's value is determined by other appropriate means.

Component Unit Investments.

All of the College's component unit's recurring fair value measurements as of March 31, 2017, are valued using quoted market prices (Level 1 inputs), with the exception of domestic and international bonds and notes, private equity fund, mutual funds equities and bonds, and fund of funds investments. Domestic and international bonds and notes are valued using market price quotations (where observable), bond spreads or credit default swap spreads or cash flow models with yield curves, bond, or single-name credit default swap spreads and recovery rates based on collateral values as key inputs (Level 2 inputs). The private equity fund is valued based on the component unit's assessment of the fund's underlying investments, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable transactions, and performance multiples, among other factors (Level 3 inputs). Fund of funds and mutual fund investments are valued at the component unit's proportionate share of the underlying fair value of the funds' net asset value where the component unit has the ability to redeem its investment at the reported net asset valuation as of the measurement date, and where the component unit's ability to redeem the investment is restricted or uncertain in the near term.

Investments held by the College's component unit at March 31, 2017, are reported as follows:

| | Amount | Fair Value Measurements Using | | |
|--|-----------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments by fair value level | | | | |
| Short-term Investments | \$ 6,205,443 | \$ 6,205,443 | \$ - | \$ - |
| Federal Agency Obligations | 1,848,468 | 1,848,468 | - | - |
| Bonds and Notes - Domestic | 6,108,932 | - | 6,108,932 | - |
| Bonds and Notes - International | 962,975 | - | 962,975 | - |
| Stocks and Other Equity Securities - Domestic | 19,797,399 | 19,797,399 | - | - |
| Stocks and Other Equity Securities - International | 3,664,409 | 3,664,409 | - | - |
| Private Equity Fund | 1,564,246 | - | - | 1,564,246 |
| Real Estate | 1,858,263 | - | - | 1,858,263 |
| Total investments by fair value level | <u>\$ 42,010,135</u> | <u>\$ 31,515,719</u> | <u>\$ 7,071,907</u> | <u>\$ 3,422,509</u> |
| Investments measured at the net asset value (NAV) | | | | |
| Fund of Funds - Domestic | 18,349,332 | | | |
| Fund of Funds - International | 8,087,003 | | | |
| Mutual Funds | | | | |
| Equities | 52,245,189 | | | |
| Bonds | 4,281,904 | | | |
| Total investments measured at NAV | <u>82,963,428</u> | | | |
| Total investments measured at fair value | <u>\$ 124,973,563</u> | | | |

For the College's component unit, the valuation method for investments measured at the NAV per share (or its equivalent) is presented in the following table:

| Investments measured at the NAV | Fair Value | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period | Liquidity Restrictions |
|--|---------------------|-------------------------|---|--------------------------------|---------------------------|
| Alternative Hedge Funds (Fund of Funds): | | | | | |
| Titan | \$ 8,087,003 | \$ - | Quarterly | 45 Days | None |
| Archstone | 6,176,281 | - | Quarterly | 90 Days | None |
| Ironwood | 10,074,620 | - | Quarterly | 95 Days | None |
| Ironwood | 2,098,431 | - | Semi-annual | 95 Days | None |
| Mutual Funds: | | | | | |
| Equities | 52,245,189 | - | | | |
| Bonds | 4,281,904 | - | | | |
| Total investments measured at the NAV | <u>\$82,963,428</u> | | | | |

The component unit's investment in the private equity fund may not be withdrawn for any reason other than the dissolution and liquidation of the private equity fund. The private equity fund is scheduled to terminate on December 31, 2017, unless otherwise extended or terminated as defined in the investment agreement.

Net Asset Value – Component Unit.

Fund of Funds: The component unit invests in fund of funds. Each fund of funds allocates their assets in a select group of private investment funds (commonly known as hedge funds) and pursue multiple strategies to diversify risks and reduce volatility. The fair value is based on the Foundation's

proportionate share of the underlying fair value of the fund of funds' net asset value as provided by each fund of funds' investment manager at the close of business each month.

Mutual Funds: The component unit invests in mutual funds which include investments in international equity and bond funds. The fair values are determined daily and are quoted on a national exchange.

Other Investments.

The College invested in various debt securities, equity securities, and money market funds. The following risks apply to the College.

Interest Rate Risk: Interest rate risk is the risk that changing interest rates will adversely affect the fair value of an investment. The College's investment policy for endowment investments, as a means of managing its exposure to fair value losses arising from increasing interest rates, states that investment managers are engaged to reduce the overall volatility of the portfolio and to provide a highly predictable and dependable source of income. It is expected that investments made by the investment managers will be flexibly allocated among maturities of different lengths according to interest rate prospects. The College's investment policy for other investments states that investments shall be made with the same judgment and care, under circumstance then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs. At June 30, 2017, the College had investments in debt securities and short-term investments as follows:

| | | College Investment Durations | | | | | |
|-------------------------|-----------------------|---|---|---|---|--|-----------------------------------|
| | | Investment Types (1) | | | | | |
| <u>Average Duration</u> | <u>Fair Value</u> | <u>United States Government Obligations</u> | <u>International Government Obligations</u> | <u>Federal Agency Obligations</u> | <u>Domestic Corporate Bonds and Notes</u> | <u>International Corporate Bonds and Notes</u> | <u>Short-Term Investments</u> |
| Endowment Investments: | | | | | | | |
| No More Than 90 Days | \$ 7,999,596 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 7,999,596 |
| 0.04 Years | 6,175,996 | - | 6,175,996 | - | - | - | - |
| 5.68 Years | 5,854,657 | 1,774,876 | - | 2,423,670 | 1,316,283 | 339,828 | - |
| Other Investments: | | | | | | | |
| No More Than 90 Days | 11,763,574 | - | - | - | - | - | 11,763,574 |
| 4.08 Years | 44,759,790 | 10,348,386 | 324,396 | 9,820,438 | 20,721,459 | 3,545,111 | - |
| 4.17 Years | 116,098,219 | 36,873,082 | - | 26,179,837 | 44,846,443 | 8,198,857 | - |
| Total | \$ 192,651,832 | \$ 48,996,344 | \$ 6,500,392 | \$ 38,423,945 | \$ 66,884,185 | \$ 12,083,796 | \$ 19,763,170 |

Note: (1) These duration investments are for debt securities including United States and International Government Obligations, Federal Agency Obligations, Domestic and International Corporate Bonds and Notes, and Short-Term Investment. Interest rate risk disclosure is not required for the other College investments in Equity Securities or Alternative Hedge Funds.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations explicitly guaranteed by the United States Government are not considered to have credit risk and do not require disclosure of credit quality. The College's investment policy for endowment investments provides that each manager's overall portfolio should exhibit at least an investment grade rating by either Moody's or Standard & Poor's. The College's investment policy for other investments states that the weighted average quality rating of the collective funds invested must maintain a rating of AA or higher. At June 30, 2017, the College had investments with quality rating by nationally recognized rating agencies (e.g., Standard & Poor's) as follows:

College Investments Quality Rating

| Investment Type (1) | Fair Value | AA-/Aa3/AA- | Aa2 | AA- | Rating Unavailable |
|---|-----------------------|----------------------|----------------------|---------------------|---------------------------|
| Endowment Investments: | | | | | |
| Domestic Corporate Bonds and Notes | \$ 1,316,283 | \$ - | \$ 1,316,283 | \$ - | \$ - |
| International Corporate Bonds and Notes | 339,828 | - | 339,828 | - | - |
| Federal Agency Obligations | 2,346,085 | - | 2,346,085 | - | - |
| International Government Obligations | 6,175,996 | - | - | 6,175,996 | - |
| Short-Term Investments | 198,363 | - | - | - | 198,363 |
| Other Investments: | | | | | |
| Domestic Corporate Bonds and Notes | 65,567,901 | 20,721,459 | 44,846,442 | - | - |
| International Corporate Bonds and Notes | 11,743,969 | 3,545,111 | 8,198,858 | - | - |
| Federal Agency Obligations | 34,188,236 | 9,797,627 | 24,390,609 | - | - |
| United States Government Obligations | 1,555,184 | 1,555,184 | - | - | - |
| International Government Obligations | 324,396 | 324,396 | - | - | - |
| Short-Term Investments | 7,964,798 | - | - | - | 7,964,798 |
| Total | \$ 131,721,039 | \$ 35,943,777 | \$ 81,438,105 | \$ 6,175,996 | \$ 8,163,161 |

Note: (1) These credit quality ratings are for Domestic and International Corporate Bonds and Notes, Federal Agency Obligations, United States and International Government Obligations, and Short-Term Investments not explicitly guaranteed by the United States Government. Credit risk disclosure is not required for the other College investments.

The College's other investments at June 30, 2017 had a weighted average credit rating lower than AA due to investments of \$27,803,396 in alternative hedge funds and \$24,588,933 in international equities with unavailable credit ratings.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the College will not be able to recover that value of investments or collateral securities that are in the possession of an outside party. Investments purchased on behalf of the College pursuant to Section 218.415, Florida Statutes, must be properly earmarked and (1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the College's interest in the security; (2) if in a book-entry form, the investment must be held for the credit of the College by a depository chartered by the Federal Government, the State, or any other State or territory of the United States, that has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States that is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or (3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The College's investments of \$101,992,539 in alternative hedge funds, \$15,325,736 in domestic stock and equities, \$58,977,832 in international equities, \$6,175,996 in international government obligations, as well as \$9,053,394 in money market funds are held by the safekeeping agent in the name of the College.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the College's investment in a single issuer. The College's investment policy for endowment investments allows for investment allocations of 40 to 60 percent in domestic equity securities, 5 to 40 percent in international equity securities, and 10 to 30 percent in domestic fixed-income securities. In addition, each domestic fixed-income manager can invest up to 10 percent of its respective portfolio in certain

international securities as long as the total international equity securities and international fixed-income securities do not exceed 40 percent of total endowment investments. The College's investment policy for other investments provides that a maximum of 5 percent may be invested in securities of any single issuer, except for United States Government and United States Government agency securities.

Securities Lending.

The College participates in a securities lending program as a means to augment income. This program is managed by the College's custodial bank that serves as a lending agent for the College and receives securities or cash as collateral. The College's securities are transferred to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for cash or the same securities in the future.

Securities loans immediately terminate by either the College or its agent, or by the borrower, upon notice and delivery of equivalent securities. Securities lent for collateral received exceeded the fair value of such investments during the period of loan. All borrowers are required to provide additional collateral if the value falls to less than 102 percent of the fair value of securities lent.

The types of securities lent during the year, to lenders domiciled or who reside in the United States, included United States Government Obligations, corporate bonds, and stocks and other equity securities. Asset-backed securities were specifically excluded as allowable collateral securities from the agreement. As of June 30, 2017, the College had loaned certain securities, with fair value of \$5,064,359 and had received cash collateral of \$5,193,088 for the loaned securities. As of June 30, 2017, the College had net investment income of \$28,810 for securities lending transactions.

| Securities Lending - Investments Lent and Collateral Received (at Fair Value) | | |
|--|---|--|
| <u>Securities Lent</u> | <u>Fair Value of Underlying Securities</u> | <u>Cash Collateral Investment Value</u> |
| For Cash Collateral (Endowment): | | |
| Stock and Other Equity Securities | \$ 463,915 | \$ 474,520 |
| For Cash Collateral (Other Investments): | | |
| United States Government Obligations | 2,013,188 | 2,066,852 |
| Corporate Bonds | 2,587,256 | 2,651,716 |
| Total | \$ 5,064,359 | \$ 5,193,088 |

The contract with the College's custodian requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

Credit Risk: At June 30, 2017, the College had no credit risk exposure to borrowers because the amounts the College owed the borrowers exceeded the amounts the borrowers owed the College.

Custodial Credit Risk: There is no custodial risk exposure associated with the investment of cash received for securities lent. These investments are held in the College's name by the custodial bank as an agent for the College.

State Board of Administration Debt Service Accounts.

The College reported investments totaling \$4,611 at June 30, 2017, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk and credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Securities Lending.

The Foundation participates in a security lending program to optimize investment income. The Foundation loans certain investment securities for short periods of time in exchange for collateral initially equal to at least 102 percent of the fair value of the investment securities on loan. The fair value of the loaned investment securities is monitored on a daily basis, with additional collateral obtained or refunded as the fair value of the loaned investment security fluctuates. The collateral, which may be in the form of cash, letters of credit, or United States Government securities, is deposited by the borrower with an independent lending agent. The collateral is recorded as an asset on the Foundation's statements of financial position, along with a liability to reflect the Foundation's obligation to return the collateral. The collateral is invested by the lending agent according to the Foundation's investment guidelines. The Foundation does not have access to the collateral unless there is default by the borrower. Loaned securities continue to be carried as investments on the statement of financial position. Earnings on the invested collateral, net of expenses, are recorded as other income in the component unit's statement of activities.

4. Quasi-Endowment Fund

Pursuant to a referendum held in September 1992, Miami-Dade County was authorized to exceed the constitutional millage limitation and levy an ad valorem tax of $\frac{3}{4}$ of a mill for a 2-year period for the purpose of maintenance, improvement, and expansion of occupational, vocational, and educational programs at the College. The funds generated by this referendum were approximately \$94 million and were invested and deposited in the College's quasi-endowment fund, of which the Board established a maximum annual withdrawal of \$9.5 million for use by the College. At June 30, 2017, the College reported quasi-endowment investments of approximately \$122.7 million.

5. Accounts Receivable

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, returned checks, uncollected commissions for the bookstore, and contract and grant reimbursements due from third parties. The accounts receivable are reported net of a \$4,193,209 allowance for doubtful accounts.

6. Notes Receivable

Notes receivable represent student loans made under the Federal Perkins Loan Program of \$13,304,332, a short-term loan program of \$1,087,699, and an emergency loan program of \$7,332. Notes receivable are reported net of a \$3,963,181 allowance for doubtful notes.

7. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of \$20,774,031 of Public Education Capital Outlay allocations due from the State for construction of College facilities and \$34,557,752 due from Federal and State governments for reimbursement of expenditures for grants and contracts.

8. Due From and To Component Unit/College

The \$7,129,719 due from component unit consists of amounts owed to the College by the Foundation for scholarships and student aid, endowed teaching chair commitments, and other program support. The \$434,575 reported as due to component unit consists of amounts owed by the College to the Foundation pursuant to an agreement to support the Foundation's operations. The College's financial statements are reported for the fiscal year ended June 30, 2017. The College's component unit's financial statements are reported for the fiscal year ended March 31, 2017. Accordingly, amounts reported by the College as due from and to component unit on the statement of net position do not agree with amounts reported by the component unit as due from and to the College.

9. Inventories

Inventories consist of items for resale by the Vision Care Clinic and are valued using the retail method. Consumable laboratory supplies, teaching materials, and office supplies on hand in College departments are expensed when purchased and are not considered material. Accordingly, these items are not included in the reported inventory.

10. Capital Assets

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

| <u>Description</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|--|--------------------------|------------------------|-----------------------|-----------------------|
| Nondepreciable Capital Assets: | | | | |
| Land | \$ 96,739,942 | \$ - | \$ - | \$ 96,739,942 |
| Works of Art | - | 85,000 | - | 85,000 |
| Construction in Progress | 61,326,003 | 58,083,860 | 3,405,381 | 116,004,482 |
| Total Nondepreciable Capital Assets | \$ 158,065,945 | \$ 58,168,860 | \$ 3,405,381 | \$ 212,829,424 |
| Depreciable Capital Assets: | | | | |
| Buildings | \$ 750,005,246 | \$ 3,405,381 | \$ - | \$ 753,410,627 |
| Other Structures and Improvements | 33,951,777 | - | - | 33,951,777 |
| Furniture, Machinery, and Equipment | 66,713,438 | 2,928,288 | - | 69,641,726 |
| Computer Software | 54,437,300 | - | - | 54,437,300 |
| Total Depreciable Capital Assets | 905,107,761 | 6,333,669 | - | 911,441,430 |
| Less, Accumulated Depreciation: | | | | |
| Buildings | 352,911,104 | 16,620,267 | 1,762,550 | 367,768,821 |
| Other Structures and Improvements | 28,508,542 | 972,371 | - | 29,480,913 |
| Furniture, Machinery, and Equipment | 58,760,145 | 3,448,278 | - | 62,208,423 |
| Computer Software | 1,415,351 | 5,361,935 | - | 6,777,286 |
| Total Accumulated Depreciation | 441,595,142 | 26,402,851 | 1,762,550 | 466,235,443 |
| Total Depreciable Capital Assets, Net | \$ 463,512,619 | \$ (20,069,182) | \$ (1,762,550) | \$ 445,205,987 |

11. Salary and Payroll Taxes Payable

Salary and payroll taxes payable as of June 30, 2017, totaled \$12,958,236. This amount includes \$1,093,807 of salary and payroll taxes and \$11,864,429 of banked points liability. Under the bank point system, faculty members are allowed to bank overload teaching assignments. The instructor may use the banked points to offset future underloads, provide for additional leave time, or receive payment upon termination.

12. Unearned Revenue

As of June 30, 2017, the College reported \$28,998,402 in unearned revenue for restricted grants and contracts revenue received prior to fiscal year end related to subsequent accounting periods. Restricted grants and contracts primarily consists of private donations designated for scholarships.

13. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2017, is shown below:

| <u>Description</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|---------------------------------------|--------------------------|-----------------------|-----------------------|-----------------------|------------------------|
| Bonds Payable | \$ 328,000 | \$ - | \$ 137,000 | \$ 191,000 | \$ 141,000 |
| Deposits Held for Others | 16,037,619 | 432,164,851 | 423,449,263 | 24,753,207 | 24,748,207 |
| Compensated Absences Payable | 31,234,061 | 20,071,118 | 18,901,378 | 32,403,801 | 15,956,357 |
| Other Postemployment Benefits Payable | 8,739,606 | 1,683,609 | 1,097,907 | 9,325,308 | - |
| Net Pension Liability | 115,484,360 | 93,218,711 | 38,842,032 | 169,861,039 | 1,952,465 |
| Total Long-Term Liabilities | \$ 171,823,646 | \$ 547,138,289 | \$ 482,427,580 | \$ 236,534,355 | \$ 42,798,029 |

Bonds Payable. The SBE issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and SBA administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2017:

| <u>Bond Type</u> | <u>Amount Outstanding</u> | <u>Interest Rates (Percent)</u> | <u>Annual Maturity To</u> |
|---------------------------|---------------------------|---------------------------------|---------------------------|
| SBE Capital Outlay Bonds: | | | |
| Series 2014B | 156,000 | 2 - 5 | 2020 |
| Series 2009A | 35,000 | 5 | 2019 |
| Total | \$ 191,000 | | |

Annual requirements to amortize all bonded debt outstanding as of June 30, 2017, are as follows:

| <u>Fiscal Year Ending June 30</u> | <u>SBE Capital Outlay Bonds</u> | | |
|-----------------------------------|---------------------------------|------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2018 | \$ 141,000 | \$ 9,100 | \$ 150,100 |
| 2019 | 35,000 | 2,050 | 37,050 |
| 2020 | 15,000 | 300 | 15,300 |
| Total | \$ 191,000 | \$ 11,450 | \$ 202,450 |

Deposits Held for Others. Deposits held for others primarily represent funds on deposit in the Agency Fund, which are derived from fund-raising activities of third parties, such as independent councils, student groups, and similar clubs. The funds are expended for purposes consistent with and supportive of the objectives of the third party or its members. As of June 30, 2017, the College reported a total liability of \$24,753,207, of which \$24,748,207 is considered a current liability as this amount is expected to be used in the coming year.

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 \$32,403,801. The current portion of the compensated absences liability, \$15,956,357, 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 administered by the College and life, dental, and long-term disability insurance benefits through purchased commercial insurance.

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the College. 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 health and hospitalization plan for medical and prescription drug coverage. The College subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at lower (explicitly subsidized) premium rate than active employees. The benefits provided under this defined benefit plan are provided for a maximum of seven years or until the retiree reaches age 65, whichever occurs earlier. The premium discount is determined at the time of retirement based on the number of years worked at the College. Additional OPEB Plan benefits include life, dental, and legal insurance, and are provided to retirees on a full cost basis, without an implicit subsidy. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible. The College does not issue a stand-alone report 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 has established and can amend plan benefits and contribution rates. The College has not advance-funded 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, 145 retirees received OPEB benefits. The College provided required contributions of \$1,097,907 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$1,513,710, which represents 1.02 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) | \$ 891,049 |
| Amortization of Unfunded Actuarial Accrued Liability | <u>785,826</u> |
| Annual Required Contribution | 1,676,875 |
| Interest on Net OPEB Obligation | 349,584 |
| Adjustment to Annual Required Contribution | <u>(342,850)</u> |
| Annual OPEB Cost (Expense) | 1,683,609 |
| Contribution Toward the OPEB Cost | <u>(1,097,907)</u> |
| Increase in Net OPEB Obligation | 585,702 |
| Net OPEB Obligation, Beginning of Year | <u>8,739,606</u> |
| Net OPEB Obligation, End of Year | <u><u>\$ 9,325,308</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 | \$ 1,746,768 | 66.2% | \$ 8,413,243 |
| 2015-16 | 1,654,522 | 80.3% | 8,739,606 |
| 2016-17 | 1,683,609 | 65.2% | 9,325,308 |

Funded Status and Funding Progress. As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$20,895,625, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$20,895,625 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$148,380,921 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 14.1 percent.

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

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

actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The College's OPEB actuarial valuation as of July 1, 2015, used the entry age normal actuarial method to estimate the actuarial accrued liability as of June 30, 2017, and the College's 2016-17 fiscal year ARC. This method was changed from projected unit credit to entry age normal in anticipation of the change outlined in GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year, an inflation rate of 2.6 percent, 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 \$169,861,039. Note 14. includes a complete discussion of defined benefit pension plans.

14. 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.

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 \$21,891,536 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 \$10,315,140 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 \$102,136,823 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

0.404501013 percent, which was a decrease of 0.032799883 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$15,842,999. 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 | \$ 7,820,381 | \$ 950,963 |
| Change of assumptions | 6,178,972 | - |
| Net difference between projected and actual earnings on FRS Plan investments | 26,401,121 | - |
| Changes in proportion and differences between College FRS contributions and proportionate share of contributions | 3,392,843 | 3,898,286 |
| College FRS contributions subsequent to the measurement date | 10,315,140 | - |
| Total | \$ 54,108,457 | \$ 4,849,249 |

The deferred outflows of resources totaling \$10,315,140, 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 | \$ 5,703,274 |
| 2019 | 5,703,274 |
| 2020 | 15,996,071 |
| 2021 | 10,424,043 |
| 2022 | 897,796 |
| Thereafter | 219,610 |
| Total | \$ 38,944,068 |

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 | \$188,040,807 | \$102,136,823 | \$30,633,102 |

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 \$3,013,231 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 \$67,724,216 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 0.581095007 percent, which was an increase of 0.002563787 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$6,048,537. 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 | \$ - | \$ 154,251 |
| Change of assumptions | 10,627,651 | - |
| Net difference between projected and actual earnings on HIS Plan investments | 34,243 | - |
| Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions | 2,045,089 | - |
| College contributions subsequent to the measurement date | 3,013,231 | - |
| Total | <u>\$ 15,720,214</u> | <u>\$ 154,251</u> |

The deferred outflows of resources totaling \$3,013,231, 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 | \$ 2,303,098 |
| 2019 | 2,303,098 |
| 2020 | 2,296,577 |
| 2021 | 2,293,447 |
| 2022 | 1,896,752 |
| Thereafter | 1,459,760 |
| Total | <u>\$ 12,552,732</u> |

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

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

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

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

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

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

Sensitivity of the 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:

| | <u>1% Decrease (1.85%)</u> | <u>Current Discount Rate (2.85%)</u> | <u>1% Increase (3.85%)</u> |
|--|------------------------------------|--|------------------------------------|
| College's proportionate share of the net pension liability | \$77,695,062 | \$67,724,216 | \$59,448,958 |

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.

15. 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 \$3,042,015 for the fiscal year ended June 30, 2017.

16. 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, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 fiscal years.

Health and hospitalization, life, dental, and long-term disability coverage are provided through purchased commercial insurance.

17. Litigation

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

18. 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 | \$ 161,032,124 |
| Public Services | 7,712,230 |
| Academic Support | 44,699,760 |
| Student Services | 37,813,108 |
| Institutional Support | 72,535,730 |
| Operation and Maintenance of Plant | 51,851,547 |
| Scholarships and Waivers | 68,331,116 |
| Depreciation | 26,402,851 |
| Auxiliary Enterprises | 7,801,389 |
| Total Operating Expenses | \$ 478,179,855 |

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 | \$ - | \$ 15,136,100 | \$ 15,136,100 | 0% | \$ 120,726,806 | 12.54% |
| 7/1/2013 | - | 19,063,338 | 19,063,338 | 0% | 132,478,287 | 14.39% |
| 7/1/2015 | - | 20,895,625 | 20,895,625 | 0% | 145,948,342 | 14.32% |

Note: (1) The College's OPEB actuarial valuations used the projected unit credit method for 7/1/2011, and 7/1/2013, and the entry age normal actuarial cost method for 7/1/2015, 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 pension liability | 0.404501013% | 0.437300896% | 0.432379370% | 0.400564282% |
| College's proportionate share of the FRS net pension liability | \$ 102,136,823 | \$ 56,483,276 | \$ 26,381,500 | \$ 68,954,941 |
| College's covered payroll (2) | \$ 179,535,484 | \$ 175,597,041 | \$ 166,967,034 | \$ 158,914,601 |
| College's proportionate share of the FRS net pension liability as a percentage of its covered payroll | 56.89% | 32.17% | 15.80% | 43.39% |
| 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, 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

| | 2017 (1) | 2016 (1) | 2015 (1) | 2014 (1) |
|--|----------------|----------------|----------------|----------------|
| Contractually required FRS contribution | \$ 10,315,140 | \$ 9,864,402 | \$ 10,661,767 | \$ 9,470,943 |
| FRS contributions in relation to the contractually required contribution | (10,315,140) | (9,864,402) | (10,661,767) | (9,470,943) |
| FRS contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - |
| College's covered payroll (2) | \$ 182,278,330 | \$ 179,535,484 | \$ 175,597,041 | \$ 166,967,034 |
| FRS contributions as a percentage of covered payroll | 5.66% | 5.49% | 6.07% | 5.67% |

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 | 0.581095007% | 0.578531220% | 0.561934377% | 0.547020762% |
| College's proportionate share of the HIS net pension liability | \$ 67,724,216 | \$ 59,001,084 | \$ 52,542,236 | \$ 47,625,350 |
| College's covered payroll (2) | \$ 179,535,484 | \$ 175,597,041 | \$ 166,967,034 | \$ 158,914,601 |
| College's proportionate share of the HIS net pension liability as a percentage of its covered payroll | 37.72% | 33.60% | 31.47% | 29.97% |
| 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 | \$ 3,013,231 | \$ 2,978,482 | \$ 2,211,506 | \$ 1,924,998 |
| HIS contributions in relation to the contractually required HIS contribution | (3,013,231) | (2,978,482) | (2,211,506) | (1,924,998) |
| HIS contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| College's covered payroll (2) | \$ 182,278,330 | \$ 179,535,484 | \$ 175,597,041 | \$ 166,967,034 |
| HIS contributions as a percentage of covered payroll | 1.65% | 1.66% | 1.26% | 1.15% |

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 \$20,895,625 was higher than the July 1, 2013, liability of \$19,063,338, primarily due to:

- Demographic assumptions (rates of withdrawal, retirement, disability, and mortality) were revised to be consistent with those used for the FRS.
- The assumed per capita costs of healthcare were updated.
- The assumed rates of healthcare inflation used to project the per capita healthcare costs were revised to reflect recent experience.
- The general payroll growth rate and salary scale assumptions were revised to be consistent with the rates used by the FRS.
- The actuarial cost method was changed from projected unit credit to entry age normal in anticipation of new disclosure requirements developed by the Governmental Accounting Standards Board.

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 Miami Dade College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 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 26, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 26, 2018