

COLLEGE OF CENTRAL FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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

The audit team leader was G. Christian Meyer, CPA, and the audit was supervised by Philip B. Ciano, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by email at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

COLLEGE OF CENTRAL FLORIDA
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the College's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States; however, we noted a certain additional matter, as summarized below.

ADDITIONAL MATTER

The financial audit of The Appleton Cultural Center, Inc., was not performed in accordance with *Government Auditing Standards*, contrary to Rules of the Auditor General.

Audit Objectives and Scope

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

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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the College are included in our report No. 2013-054.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent College records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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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 FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the College of Central Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of College management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College of Central Florida and of its aggregate discretely presented component units as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the College of Central Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
March 15, 2013

MANAGEMENT’S DISCUSSION AND ANALYSIS

The management’s discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2012, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2012, and June 30, 2011, and its component units, the College of Central Florida Foundation, Inc., and The Appleton Cultural Center, Inc., for the fiscal years ended December 31, 2011, and December 31, 2010.

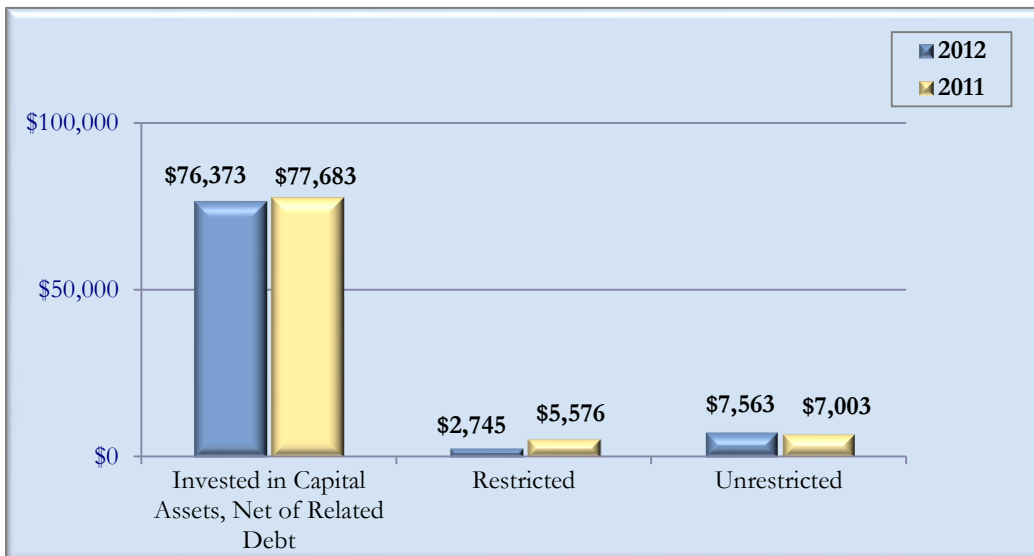
FINANCIAL HIGHLIGHTS

The College’s assets totaled \$95.2 million at June 30, 2012. This balance reflects a \$3.1 million, or 3.2 percent, decrease as compared to June 30, 2011, primarily from a \$1.4 million reduction in amounts due from other governmental agencies and a decrease of \$1.5 million in capital assets during the 2011-12 fiscal year. Liabilities increased by \$0.4 million, or 5.5 percent, totaling \$8.5 million at June 30, 2012, compared to \$8.1 million at June 30, 2011. As a result, the College’s net assets decreased by \$3.6 million, resulting in a year-end balance of \$86.7 million.

The College’s operating revenues totaled \$14.2 million for the 2011-12 fiscal year, representing a \$1.1 million, or 7.3 percent, decrease as compared to the 2010-11 fiscal year, due mainly to decreases in net student tuition and fees of \$0.6 million and in Federal grants and contracts of \$0.3 million. Operating expenses totaled \$65.5 million for the 2011-12 fiscal year, representing an increase of 1 percent from the 2010-11 fiscal year due mainly to a \$0.8 million increase in scholarships and waivers.

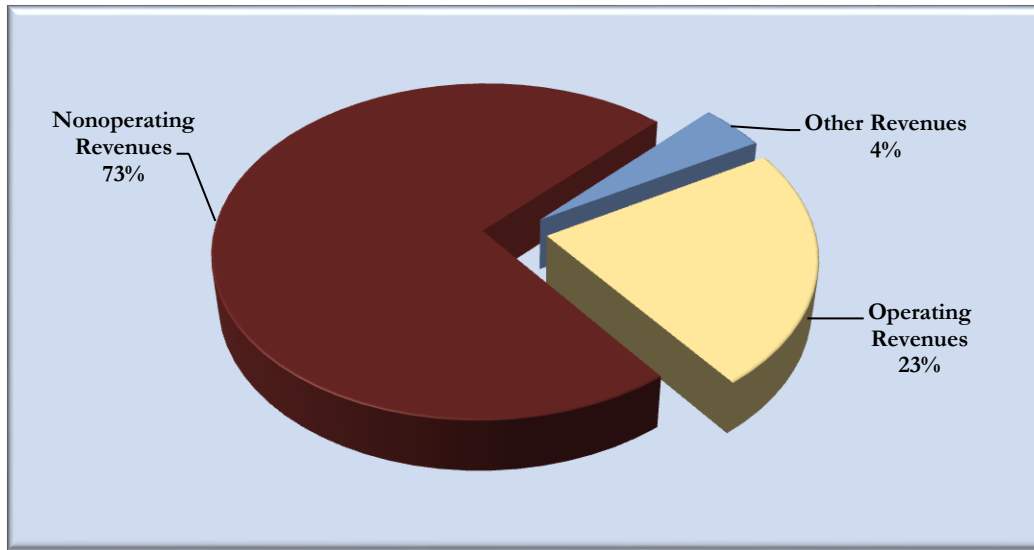
Net assets represent the residual interest in the College’s assets after deducting liabilities. The College’s comparative total net assets by category for the fiscal years ended June 30, 2012, and 2011, are shown in the following graph:

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



The following chart provides a graphical presentation of College revenues by category for the 2011-12 fiscal year:

Total Revenues: College



OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

certain trends, student retention, condition of the buildings, and the safety of the campus, to assess the College's overall financial health.

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

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

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

	College		Component Units	
	6-30-12	6-30-11	12-31-11	12-31-10
Assets				
Current Assets	\$ 10,322	\$ 11,893	\$ 4,486	\$ 6,995
Capital Assets, Net	78,711	80,228	21,431	21,520
Other Noncurrent Assets	<u>6,184</u>	<u>6,230</u>	<u>50,875</u>	<u>48,940</u>
Total Assets	<u>95,217</u>	<u>98,351</u>	<u>76,792</u>	<u>77,455</u>
Liabilities				
Current Liabilities	3,260	2,651	1,033	938
Noncurrent Liabilities	<u>5,276</u>	<u>5,438</u>	<u>3,316</u>	<u>3,657</u>
Total Liabilities	<u>8,536</u>	<u>8,089</u>	<u>4,349</u>	<u>4,595</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	76,373	77,683	19,041	18,780
Restricted	2,745	5,576	46,237	47,187
Unrestricted	<u>7,563</u>	<u>7,003</u>	<u>7,165</u>	<u>6,893</u>
Total Net Assets	<u>\$ 86,681</u>	<u>\$ 90,262</u>	<u>\$ 72,443</u>	<u>\$ 72,860</u>
Decrease in Net Assets	<u>\$ (3,581)</u> -4.0%		<u>\$ (417)</u> -0.6%	

The decrease in the College's net assets was primarily from a decrease in receivables due from other governmental agencies of \$1.4 million and a decrease of \$1.5 million in depreciable and nondepreciable capital assets.

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

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

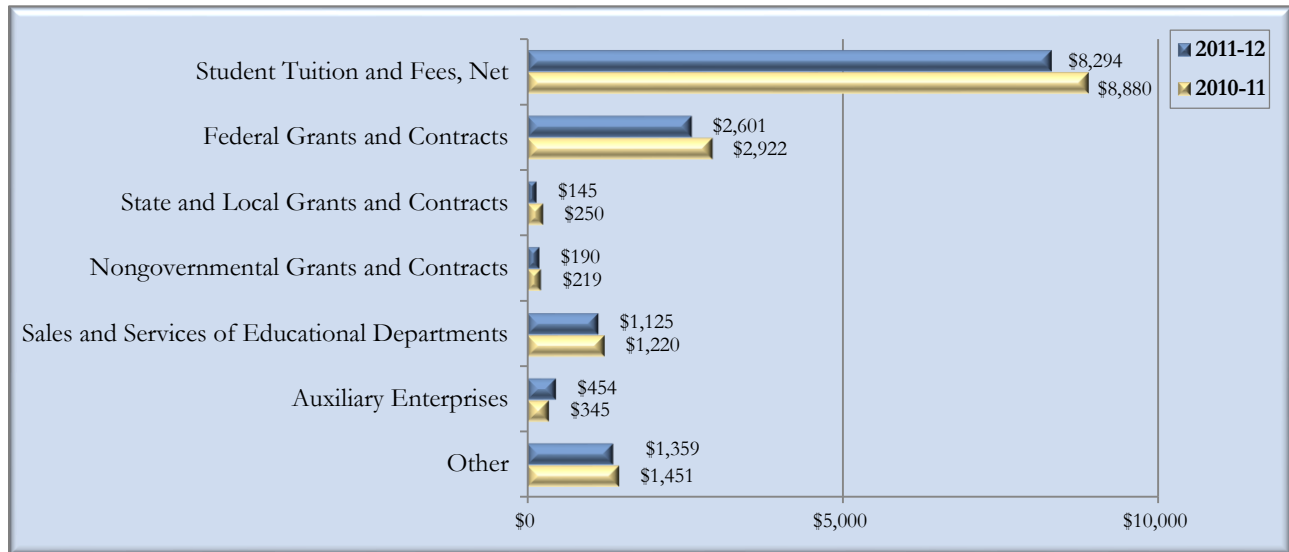
	College		Component Units	
	6-30-12	6-30-11	12-31-11	12-31-10
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 8,294	\$ 8,880	\$	\$
Federal Grants and Contracts	2,601	2,922		
State and Local Grants and Contracts	145	250		
Nongovernmental Grants and Contracts	190	219	429	1,041
Sales and Services of Educational Departments	1,125	1,220		
Auxiliary Enterprises	454	345		
Other Operating Revenues	1,359	1,451	1,217	1,294
Total Operating Revenues	14,168	15,287	1,646	2,335
Less, Operating Expenses	65,540	64,896	3,700	3,435
Operating Loss	(51,372)	(49,609)	(2,054)	(1,100)
Nonoperating Revenues (Expenses)				
State Noncapital Appropriations	19,722	20,090		
Other Nonoperating Revenues	25,461	26,013	810	5,706
Interest on Capital Asset-Related Debt	(130)	(140)	(119)	(133)
Net Nonoperating Revenues	45,053	45,963	691	5,573
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses				
	(6,319)	(3,646)	(1,363)	4,473
State Capital Appropriations	1,058	2,294		
Capital Grants, Contracts, Gifts, and Fees	1,680	2,664		
Additions to Permanent Endowments			946	597
Increase (Decrease) in Net Assets	(3,581)	1,312	(417)	5,070
Net Assets, Beginning of Year	90,262	88,950	72,860	67,790
Net Assets, End of Year	\$ 86,681	\$ 90,262	\$ 72,443	\$ 72,860

Operating Revenues

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

The following chart presents the College's operating revenues for the 2011-12 and 2010-11 fiscal years:

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



College operating revenue changes were primarily the result of student tuition and fees, net of scholarship allowances decreasing \$0.6 million, or 6.6 percent, compared to the 2010-11 fiscal year. This was due to a decrease of \$0.2 million in student tuition and fees, and an increase in scholarship allowances of \$0.4 million. Scholarship allowances increased due to an increase in students who received student financial aid.

Operating Expenses

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

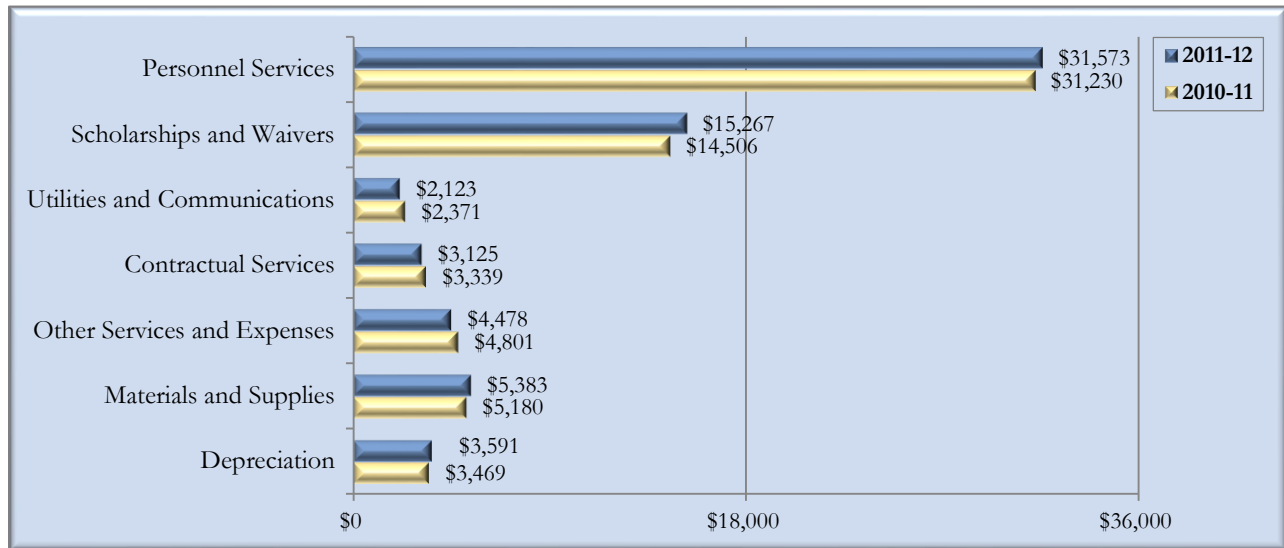
Operating expenses for the College and its component units for the respective fiscal years ended are presented in the following table:

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

	College		Component Units	
	6-30-12	6-30-11	12-31-11	12-31-10
Operating Expenses				
Personnel Services	\$ 31,573	\$ 31,230	\$	\$
Scholarships and Waivers	15,267	14,506	840	689
Utilities and Communications	2,123	2,371		
Contractual Services	3,125	3,339	424	403
Other Services and Expenses	4,478	4,801	2,087	1,998
Materials and Supplies	5,383	5,180	173	170
Depreciation	3,591	3,469	176	175
Total Operating Expenses	\$ 65,540	\$ 64,896	\$ 3,700	\$ 3,435

The following chart presents the College’s operating expenses for the 2011-12 and 2010-11 fiscal years:

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



The College’s operating expenses changed primarily as the result of scholarships and waivers increasing by \$0.8 million, or 5.2 percent, due to students receiving more student financial aid for the 2011-12 fiscal year.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College’s nonoperating revenues and expenses for the 2011-12 and 2010-11 fiscal years:

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

	2011-12	2010-11
State Noncapital Appropriations	\$ 19,722	\$ 20,090
Federal and State Student Financial Aid	25,145	25,153
Investment Income	135	203
Other Nonoperating Revenues	181	657
Interest on Capital Asset-Related Debt	(130)	(140)
Net Nonoperating Revenues	\$ 45,053	\$ 45,963

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

- State noncapital appropriations decreased \$0.4 million, or 1.8 percent, from the 2010-11 fiscal year, primarily due to a decrease in nonrecurring funds from the State through the College Program Fund.
- Other nonoperating revenues decreased \$0.5 million, or 72.5 percent, from the 2010-11 fiscal year, due primarily to the College’s reclassification of certain endowed scholarship contributions from the Foundation.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College’s other revenues, expenses, gains, or losses for the 2011-12 and 2010-11 fiscal years:

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

	<u>2011-12</u>	<u>2010-11</u>
State Capital Appropriations	\$ 1,058	\$ 2,294
Capital Grants, Contracts, Gifts, and Fees	<u>1,680</u>	<u>2,664</u>
Total	<u>\$ 2,738</u>	<u>\$ 4,958</u>

Changes in other revenues, expenses, gains, or losses were the result of the following factors:

- State capital appropriations decreased by \$1.2 million, or 53.9 percent, from the 2010-11 fiscal year due primarily to a reduction in Public Education Capital Outlay allocations received during the 2011-12 fiscal year.
- Capital grants, contracts, gifts, and fees decreased by \$1 million, or 36.9 percent, primarily due to the College receiving \$0.5 million from the Florida College System Risk Management Consortium for building repairs in the 2010-11 fiscal year, which was not received in the current fiscal year, and a Kresge Foundation Challenge Grant award of \$0.4 million received in the 2010-11 fiscal year but not received in the current fiscal year.

THE STATEMENT OF CASH FLOWS

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

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

A summary of the College’s cash flows for the 2011-12 and 2010-11 fiscal years is presented in the following table:

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

	<u>2011-12</u>	<u>2010-11</u>
Cash Provided (Used) by:		
Operating Activities	\$ (45,907)	\$ (46,734)
Noncapital Financing Activities	44,971	45,914
Capital and Related Financing Activities	691	2,291
Investing Activities	<u>163</u>	<u>222</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(82)	1,693
Cash and Cash Equivalents, Beginning of Year	<u>13,336</u>	<u>11,643</u>
Cash and Cash Equivalents, End of Year	<u>\$ 13,254</u>	<u>\$ 13,336</u>

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand, cash in demand accounts, and funds invested with the State Treasury Special Purpose Investment Account (SPIA) and the State Board of Administration (SBA) Florida PRIME investment pools. Major sources of funds came from Federal and State

student financial aid (\$25.1 million), Federal direct loan program receipts (\$23.1 million), State noncapital appropriations (\$19.7 million), net student tuition and fees (\$9.7 million), and grants and contracts (\$2.8 million). Major uses of funds were for payments to employees (\$26.2 million), payments for employee benefits (\$4.6 million), Federal direct loan program disbursements (\$23.1 million), payments for scholarships (\$15.3 million), and payments to suppliers (\$13.1 million).

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

- The College's cash flows from noncapital financing activities decreased \$0.9 million, or 2.1 percent, from the 2010-11 fiscal year primarily due to the conclusion of State-appropriated Federal American Recovery and Reinvestment Act (ARRA) funding.
- The College's cash flows from capital and related financing activities decreased \$1.6 million, or 69.8 percent, from the 2010-11 fiscal year primarily due to the reduction in State capital appropriations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2012, the College had \$129.8 million in capital assets, less accumulated depreciation of \$51.1 million, for net capital assets of \$78.7 million. Accumulated depreciation showed a net increase of \$3.1 million, due primarily to depreciation charges for the current fiscal year of \$3.6 million. The following table summarizes the College's capital assets at June 30:

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

<u>Capital Assets</u>	<u>2012</u>	<u>2011</u>
Land	\$ 14,254	\$ 14,588
Construction in Progress		208
Buildings	96,012	94,492
Other Structures and Improvements	9,975	9,651
Furniture, Machinery, and Equipment	6,945	6,635
Assets Under Capital Lease	<u>2,604</u>	<u>2,604</u>
Total	<u>129,790</u>	<u>128,178</u>
Less, Accumulated Depreciation:		
Buildings	37,281	35,047
Other Structures and Improvements	6,823	6,319
Furniture, Machinery, and Equipment	5,803	5,542
Assets Under Capital Lease	<u>1,172</u>	<u>1,042</u>
Total Accumulated Depreciation	<u>51,079</u>	<u>47,950</u>
Capital Assets, Net	<u>\$78,711</u>	<u>\$ 80,228</u>

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

DEBT ADMINISTRATION

At fiscal year-end, the College had \$2.3 million in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2012, and June 30, 2011:

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

	<u>2012</u>	<u>2011</u>
SBE Capital Outlay Bonds	\$ 345	\$ 445
Capital Lease Payable	<u>1,992</u>	<u>2,100</u>
Total	<u>\$ 2,337</u>	<u>\$ 2,545</u>

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2011-12 fiscal year, the SBE issued \$53.8 million of SBE Capital Outlay Bonds, Series 2011A. Proceeds from the College’s portion of the bonds, \$155 thousand, were used to refund \$165 thousand of outstanding SBE Capital Outlay Bonds, Series 2002B. Debt repayments during the 2011-12 fiscal year totaled \$90 thousand and capital lease payments totaled \$108 thousand. Additional information about the College’s long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College of Central Florida’s economic condition is closely tied to that of the State of Florida. Since the State has had limited economic growth in recent years, and because there has also been an increase in demand for State resources, the College anticipates a decrease in State funding for the 2012-13 fiscal year. In response to the anticipated decrease in State appropriations, the Board of Trustees increased the tuition rate 5 percent to take effect beginning with the Fall 2012 term. The College’s current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2012**

	College	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 7,770,325	\$ 3,872,555
Restricted Cash and Cash Equivalents	649,591	
Restricted Investments		209,024
Accounts Receivable, Net	1,188,820	
Due from Other Governmental Agencies	266,741	
Due from Component Units	107,534	
Inventories	32,033	
Prepaid Expenses	296,612	131,136
Other Assets	10,000	273,679
Total Current Assets	10,321,656	4,486,394
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	4,834,380	3,132,202
Investments	189,284	1,071,533
Restricted Investments	16,053	600,000
Endowment Investments		44,414,401
Land and Property Held for Investment		1,066,771
Due from Component Units	1,144,633	
Depreciable Capital Assets, Net	64,456,166	4,068,027
Nondepreciable Capital Assets	14,254,357	17,362,840
Other Assets		590,199
Total Noncurrent Assets	84,894,873	72,305,973
TOTAL ASSETS	\$ 95,216,529	\$ 76,792,367
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 562,635	\$ 141,347
Salary and Payroll Taxes Payable	1,292,903	
Due to Other Governmental Agencies	221,776	
Due to College		375,153
Deferred Revenue	81,062	49,280
Deposits Held for Others	681,848	60,981
Line of Credit Payable		12,655
Long-Term Liabilities - Current Portion:		
Bonds Payable	95,000	370,000
Capital Lease Payable	119,742	
Compensated Absences Payable	204,470	
Other Long-Term Liabilities		24,091
Total Current Liabilities	3,259,436	1,033,507

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2012**

	College	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	\$ 250,000	\$ 2,020,000
Loan Payable to College		1,130,591
Capital Lease Payable	1,872,288	
Compensated Absences Payable	2,990,376	
Other Postemployment Benefits Payable	163,645	
Other Long-Term Liabilities		165,725
Total Noncurrent Liabilities	5,276,309	3,316,316
TOTAL LIABILITIES	8,535,745	4,349,823
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	76,373,493	19,040,867
Restricted:		
Nonexpendable:		
Endowment		42,400,916
Expendable:		
Grants and Loans	824,612	3,835,743
Scholarships	84,580	
Capital Projects	1,819,450	
Debt Service	16,053	
Unrestricted	7,562,596	7,165,018
Total Net Assets	86,680,784	72,442,544
TOTAL LIABILITIES AND NET ASSETS	\$ 95,216,529	\$ 76,792,367

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

COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2012

	College	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$11,168,145	\$ 8,294,111	\$
Federal Grants and Contracts	2,601,183	
State and Local Grants and Contracts	145,133	
Nongovernmental Grants and Contracts	190,283	428,829
Sales and Services of Educational Departments	1,125,268	
Auxiliary Enterprises	453,857	
Other Operating Revenues	1,358,619	1,217,459
Total Operating Revenues	14,168,454	1,646,288
EXPENSES		
Operating Expenses:		
Personnel Services	31,573,415	
Scholarships and Waivers	15,266,616	840,485
Utilities and Communications	2,123,099	
Contractual Services	3,125,050	423,665
Other Services and Expenses	4,477,699	2,086,852
Materials and Supplies	5,382,984	173,310
Depreciation	3,591,440	176,034
Total Operating Expenses	65,540,303	3,700,346
Operating Loss	(51,371,849)	(2,054,058)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	19,722,300	
Federal and State Student Financial Aid	25,145,211	
Investment Income	134,802	452,548
Other Nonoperating Revenues	180,562	356,969
Interest on Capital Asset-Related Debt	(130,495)	(118,832)
Net Nonoperating Revenues	45,052,380	690,685
Loss Before Other Revenues, Expenses, Gains, or Losses	(6,319,469)	(1,363,373)
State Capital Appropriations	1,058,218	
Capital Grants, Contracts, Gifts, and Fees	1,679,758	
Additions to Permanent Endowments		946,177
Total Other Revenues	2,737,976	946,177
Decrease in Net Assets	(3,581,493)	(417,196)
Net Assets, Beginning of Year	90,262,277	72,859,740
Net Assets, End of Year	\$ 86,680,784	\$ 72,442,544

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

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012**

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 9,724,138
Grants and Contracts	2,831,655
Payments to Suppliers	(13,108,908)
Payments for Utilities and Communications	(2,123,099)
Payments to Employees	(26,176,219)
Payments for Employee Benefits	(4,573,599)
Payments for Scholarships	(15,266,616)
Auxiliary Enterprises	453,857
Sales and Services of Educational Departments	1,125,268
Other Receipts	1,206,877
	Net Cash Used by Operating Activities
	(45,906,646)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	19,722,300
Federal and State Student Financial Aid	25,145,211
Federal Direct Loan Program Receipts	23,052,331
Federal Direct Loan Program Disbursements	(23,052,331)
Other Nonoperating Receipts	103,028
	Net Cash Provided by Noncapital Financing Activities
	44,970,539
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	1,423,218
Capital Grants and Gifts	1,679,758
Proceeds from Sale of Capital Assets	4,955
Purchases of Capital Assets	(2,087,859)
Principal Paid on Capital Debt and Leases	(197,824)
Interest Paid on Capital Debt and Leases	(130,495)
	Net Cash Provided by Capital and Related Financing Activities
	691,753
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(9,426)
Investment Income	172,256
	Net Cash Provided by Investing Activities
	162,830
Net Decrease in Cash and Cash Equivalents	(81,524)
Cash and Cash Equivalents, Beginning of Year	13,335,820
	Cash and Cash Equivalents, End of Year
	\$ 13,254,296

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2012**

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (51,371,849)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,591,440
Changes in Assets and Liabilities:	
Accounts Receivables, Net	270,343
Due from Other Governmental Agencies	1,083,073
Inventories	3,820
Prepaid Expenses	(151,578)
Accounts Payable	(103,398)
Salaries and Payroll Taxes Payable	767,540
Due to Other Governmental Agencies	(44,613)
Deferred Revenue	(96,106)
Deposits Held for Others	44,013
Compensated Absences Payable	43,340
Other Postemployment Benefits Payable	57,329
	\$ (45,906,646)

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

Unrealized losses on investments were recognized as a decrease to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ (37,454)
The State Board of Education issued \$155,000 Capital Outlay Bonds, Series 2011A, to refund \$165,000 Capital Outlay Bonds, Series 2002B. The new debt and defeasance of the old debt were recorded as an increase and a decrease, respectively, to bonds payable on the statement of net assets; however, because the proceeds of the new debt were immediately placed into an irrevocable trust for the defeasance of the 2002B debt, the transaction did not affect cash and cash equivalents.	\$ 10,000

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

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The Foundation and the Center are audited by other auditors pursuant to Section 1004.70(6), Florida Statutes, and their 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 and the Center's audited financial statements for the fiscal year ended December 31, 2011. Additional condensed financial statements for the College's component units are included in a subsequent note.

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

COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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 Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
 - Notes to Financial Statements
- Other Required Supplementary Information

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

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

The College follows GASB pronouncements and FASB pronouncements issued on or before November 30, 1989, unless FASB pronouncements conflict with GASB pronouncements. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College has the option to elect to apply all pronouncements of FASB issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The College has elected not to apply FASB pronouncements issued after November 30, 1989.

COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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 of unrealized gains or losses on investments), and revenues for capital asset acquisitions. Interest on capital asset-related debt is a nonoperating expense.

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

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

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

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and funds invested with the State Treasury Special Purpose Investment Account (SPIA) and the State Board of Administration (SBA) Florida PRIME investment pools. For reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the SPIA and SBA 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, 2012, the College reported as cash equivalents at fair value \$3,027,268 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's and had an effective duration of 2.38 years at June 30, 2012. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this

COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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, 2012, the College reported as cash equivalents, \$2,889,525 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, as of June 30, 2012, 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 38 days as of June 30, 2012. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

Cash and Cash Equivalents - Component Units. The amount reported for the component units as cash and cash equivalents consists of cash, money market accounts, and highly liquid fixed income investments with original maturities of three months or less. Cash deposits in excess of Federal Deposit Insurance Corporation (FDIC) limits at individual financial institutions and cash held in money market accounts are uninsured. Management does not consider this risk significant. Certain investments are held in brokerage house investment accounts that are not insured by the FDIC. The total amount of uninsured cash balances held at financial institutions or brokerage accounts at December 31, 2011, was \$5,073,188.

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

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

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Capital Assets – Component Units. The Foundation’s land, buildings, and equipment are stated at cost except for donated property, which is stated at fair market value or replacement cost on the date of donation, and is net of accumulated depreciation of \$2,035,528. The Foundation depreciates buildings and equipment using the straight-line method over estimated lives ranging from 5 years for most equipment to 40 years for buildings.

The Center capitalizes all property and equipment with a cost of greater than \$500 and an estimated useful life exceeding one year. Property and equipment is depreciated from 3 to 7 years using the straight-line method. As of December 31, 2011, all property and equipment, totaling \$4,592, is fully depreciated.

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

2. INVESTMENTS

College

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

The College’s investments at June 30, 2012, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 189,284
State Board of Administration Debt Service Accounts	<u>16,053</u>
Total College Investments	<u>\$ 205,337</u>

COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

At June 30, 2012, the College reported investments at fair value of \$189,284 in Fund B. The College's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.83481105 at June 30, 2012. The weighted-average life (WAL) of Fund B at June 30, 2012, was 5.73 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2012. WAL measures the sensitivity of Fund B to interest rate changes. The College's investment in Fund B is unrated.

State Board of Administration Debt Service Accounts. The College reported investments totaling \$16,053 at June 30, 2012, 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. These investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the SBA Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Units

College of Central Florida Foundation, Inc. Investments include endowed investments of \$44,414,401 in United States Government securities, and corporate debt securities and equities, reported at fair value based on quoted market prices, and real estate holdings of \$1,066,771 reported at fair market value at the date of the gift. In addition, nonendowed assets held for various temporarily restricted purposes totaling \$1,071,533 are invested separately and managed in accordance with the policies adopted by the Foundation's Board of Directors.

Endowed investments are managed by bank trust departments and investment brokerage houses. The Foundation has established an investment policy for its endowed investments and has investment managers who are required to oversee the management of the portfolios pursuant to its investment policy. The Foundation has a separate investment policy pertaining to the Appleton Museum Family Endowment and the Edith Marie Appleton Endowment portfolios, which are managed and governed by a trust company with oversight by the Appleton family.

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

COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Investment	Weighted-Average Maturity or Duration (Years)	Credit Quality Rating	Fair Value
Appleton Museum Family Endowment:			
U.S. Treasury Notes	8.8	Aaa	\$ 182,569
Government Agency Bonds	8.8	Aaa	195,693
Corporate Bonds	8.8	A	297,730
Corporate Bond Fund	8.8	Unrated	687,731
Equities	(1)	(1)	8,285,849
Hedge Fund	(1)	(1)	24,577
Global Real Estate	(1)	(1)	135,267
Commodities	(1)	(1)	528,816
Accruals	(1)	(1)	6,736
Edith Marie Appleton Endowment:			
U.S. Treasury Notes	8	Aaa	273,629
Government Agency Bonds	8	Aaa	257,336
Corporate Bonds	8	A	114,910
Corporate Bond Funds	8	Unrated	444,695
Equities	(1)	(1)	1,903,079
Hedge Fund	(1)	(1)	4,096
Global Real Estate	(1)	(1)	21,790
Commodities	(1)	(1)	211,382
Accruals	(1)	(1)	6,173
Other Endowed Investments:			
U.S. Treasury Notes	8.15	AAA	2,888,767
Government Agency Bonds	0.23	AAA	1,477,182
Corporate Bonds	5.51	AA	548,467
Corporate Bonds	3.78	A	4,389,324
Equities	(1)	(1)	21,501,833
Real Estate	(1)	(1)	26,770
Total Endowment Investments			<u>\$44,414,401</u>

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

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

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

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

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

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

Foreign Currency Risk: The Foundation's investment risk exposure is as follows:

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

The Appleton Cultural Center, Inc. Endowment investments are carried at market value and consist of mutual funds invested in United States Government securities totaling \$809,024 at December 31, 2011.

3. ACCOUNTS RECEIVABLE

Accounts receivable primarily consists of student fee deferments and are reported net of an \$80,540 allowance for doubtful accounts.

4. DUE FROM COMPONENT UNITS

The College's financial statements are reported for the fiscal year ended June 30, 2012, and the financial statements of the component units are reported for the fiscal year ended December 31, 2011. Accordingly, on the statement of net assets, the amount (current) due from component units of \$107,534 reported by the College does not agree with the amount (current) due to College reported by the component units of \$375,153. Similarly, on the statement of net assets, the amount (noncurrent) due from component units reported by the College of \$1,144,633, which represents advances provided to the Foundation by the College pursuant to a limited pledge agreement as explained in note 6, does not agree with the amount (noncurrent) loan payable to College reported by the component units of \$1,130,591.

5. CAPITAL ASSETS

Capital assets activity of the College for the fiscal year ended June 30, 2012, is shown below:

**COLLEGE OF CENTRAL FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 14,588,150	\$	\$ 333,793	\$ 14,254,357
Construction in Progress	207,528		207,528	
Total Nondepreciable Capital Assets	\$ 14,795,678	\$	\$ 541,321	\$ 14,254,357
Depreciable Capital Assets:				
Buildings	\$ 94,491,616	\$ 1,519,963	\$	\$ 96,011,579
Other Structures and Improvements	9,650,615	324,577		9,975,192
Furniture, Machinery, and Equipment	6,635,344	770,805	461,919	6,944,230
Assets Under Capital Lease	2,604,386			2,604,386
Total Depreciable Capital Assets	113,381,961	2,615,345	461,919	115,535,387
Less, Accumulated Depreciation:				
Buildings	35,046,637	2,234,186		37,280,823
Other Structures and Improvements	6,319,430	503,300		6,822,730
Furniture, Machinery, and Equipment	5,541,879	723,735	461,919	5,803,695
Assets Under Capital Lease	1,041,754	130,219		1,171,973
Total Accumulated Depreciation	47,949,700	3,591,440	461,919	51,079,221
Total Depreciable Capital Assets, Net	\$ 65,432,261	\$ (976,095)	\$	\$ 64,456,166

Capital asset activity of the Foundation and the Center (component units) for the fiscal year ended December 31, 2011, is shown below:

Description	Beginning Balance	Additions (1)	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 459,640	\$	\$	\$ 459,640
Works of Art and Historical Treasures	16,831,300	71,900		16,903,200
Total Nondepreciable Capital Assets	\$ 17,290,940	\$ 71,900	\$	\$ 17,362,840
Depreciable Capital Assets:				
Buildings	\$ 6,063,065	\$	\$	\$ 6,063,065
Furniture, Machinery, and Equipment	79,406		34,324	45,082
Total Depreciable Capital Assets	6,142,471		34,323	6,108,147
Less, Accumulated Depreciation:				
Buildings	1,846,541	158,580		2,005,121
Furniture, Machinery, and Equipment	66,890	2,433	34,324	34,999
Total Accumulated Depreciation	1,913,431	161,013	34,323	2,040,120
Total Depreciable Capital Assets, Net	\$ 4,229,040	\$ (161,013)	\$	\$ 4,068,027

Note: (1) Depreciation expense reported on the statement of revenues, expenses, and changes in net assets includes \$15,021 in amortized bond issue costs related to construction of a student housing facility and an office building.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

6. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2012, include bonds payable, capital lease payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 445,000	\$ 155,000	\$ 255,000	\$ 345,000	\$ 95,000
Capital Lease Payable	2,099,854		107,824	1,992,030	119,742
Compensated Absences Payable	3,151,506	393,910	350,570	3,194,846	204,470
Other Postemployment Benefits Payable	106,316	57,329		163,645	
Total Long-Term Liabilities	\$5,802,676	\$ 606,239	\$ 713,394	\$5,695,521	\$ 419,212

Long-term liabilities of the Foundation (component unit) consist of industrial revenue bonds payable, loan payable to the College, and other long-term liabilities. The long-term liabilities activity for the Foundation for the fiscal year ended December 31, 2011, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Industrial Revenue Bonds:					
Student Housing Bonds	\$ 985,000	\$	\$ 260,000	\$ 725,000	\$ 275,000
Enterprise Center Revenue Bonds	1,755,000		90,000	1,665,000	95,000
Loan Payable to College	1,062,987	67,604		1,130,591	
Other Long-Term Liabilities	246,014		56,198	189,816	24,091
Total Long-Term Liabilities	\$4,049,001	\$ 67,604	\$ 406,198	\$3,710,407	\$ 394,091

Bonds Payable. The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College’s portion of the State-assessed motor vehicle license tax and by the State’s full faith and credit. The SBE and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2012:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2005A	\$ 190,000	5	2017
Series 2011A	155,000	4 - 5	2015
Total	\$ 345,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

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Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
2013	\$ 95,000	\$ 16,571	\$ 111,571
2014	100,000	12,500	112,500
2015	85,000	7,500	92,500
2016	45,000	3,250	48,250
2017	20,000	1,000	21,000
Total	\$ 345,000	\$ 40,821	\$ 385,821

On January 5, 2012, the SBE issued \$53,785,000 of SBE Capital Outlay Refunding Bonds, Series 2011A. A portion of these bonds were used to advance refund \$28,990,000 of SBE Capital Outlay, Series 2002B, that were called for redemption on January 6, 2012. The College’s portion of the Series 2011A bonds, \$155,000, was used to refund \$165,000 of outstanding SBE Capital Outlay Bonds, Series 2002B. As a result of the refunding, the College had a debt service savings of \$13,111 and obtained an economic gain of \$12,954.

Bonds Payable - Foundation. Bonds payable of the Foundation (component unit) at December 31, 2011, consist of the following:

- Industrial Revenue Bonds, Series 1994. In 1994, the Foundation issued \$3.5 million of tax-exempt Industrial Revenue Bonds through the City of Ocala, Florida, to construct a student housing facility. In May 1999, the outstanding principal amount of \$3,025,000 was refinanced at an interest rate of 4.76 percent. Principal and interest payments are due semi-annually. The bonds are secured by a first mortgage on real property; first lien on personal property; and assignment of leases, rents, and profits. Annual requirements to amortize the Industrial Revenue Bonds, Series 1994, are as follows:

Fiscal Year Ending December 31	Industrial Revenue Bonds, Series 1994		
	Principal	Interest	Total
2012	\$ 275,000	\$ 31,297	\$ 306,297
2013	290,000	18,088	308,088
2014	160,000	3,808	163,808
Total	\$ 725,000	\$ 53,193	\$ 778,193

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Fiscal Year Ending December 31	Enterprise Center Revenue Bonds, Series 2003A1		
	Principal	Interest	Total
2012	\$ 95,000	\$ 66,988	\$ 161,988
2013	100,000	62,929	162,929
2014	105,000	58,790	163,790
2015	115,000	54,247	169,247
2016	130,000	49,277	179,277
2017-2021	825,000	152,181	977,181
2022-2023	295,000	9,960	304,960
Total	\$ 1,665,000	\$ 454,372	\$ 2,119,372

Loan Payable to College - Foundation. On January 1, 1994, the College entered into a limited pledge agreement with the Foundation (component unit) and a national banking association to facilitate the Foundation’s financing of the student housing facility. The agreement provides, in part, that the College shall pay to the Foundation the amount necessary to meet the Foundation’s obligation in the event the Foundation has insufficient moneys. However, such payments shall be limited to the College’s available resources in the auxillary and scholarship funds up to \$450,000 in any fiscal year. The agreement requires the College to accrue net auxiliary revenue, as defined in the agreement, of \$150,000, and to maintain this balance until debt coverage requirements for this project have been met. In December 2003, the Foundation legally obligated itself to the College in the form of an uncollateralized, noninterest bearing advance for amounts provided by the College to assist with unfunded debt service and operating costs associated with the student housing facility. During the Foundation’s fiscal year ended December 31, 2011, the payable to the College was increased \$67,604 for additional payments made by the College on behalf of the Foundation for the student housing facility.

Capital Lease Payable. The College acquired energy saving equipment in the amount of \$2,604,386 under a capital lease agreement. The stated interest rate on the existing lease is 5.249 percent, subject to adjustment to 180 basis points over the 10-year United States Treasury note rate, to a maximum of 7 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Amount
2013	\$ 222,000
2014	228,000
2015	232,956
2016	233,911
2017	233,912
2018-2022	1,169,558
2023-2024	350,867
Total Minimum Payments	2,671,204
Less, Amount Representing Interest	679,174
Present Value of Minimum Payments	\$ 1,992,030

COLLEGE OF CENTRAL FLORIDA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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, 2012, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$3,194,846. The current portion of the compensated absences liability, \$204,470, is the amount expected to be paid in the coming fiscal year. The current portion of the compensated absences liability was based on the actual payout for sick and annual leave for the last six years divided by the corresponding fiscal year's total compensated absences balance. The percentages were then averaged, and the resulting percentage was applied to the June 30, 2012, compensated absences balance to determine the current portion.

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

Plan Description. The College contributes to an agent, multiple-employer defined-benefit plan (Plan) administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone report for the Plan, and the Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend the benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 62 retirees received postemployment healthcare benefits. The College provides annual contributions toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums; however, during the 2011-12 fiscal year, retiree contributions totaled \$361,218, which exceeded the expected costs of benefits by \$4,344.

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.

**COLLEGE OF CENTRAL FLORIDA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The following table shows the College’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the College’s net OPEB obligation:

Description	Amount
Normal Cost (Service Cost for One Year)	\$ 41,457
Amortization of Unfunded Actuarial Accrued Liability	10,819
Annual Required Contribution	52,276
Interest on Net OPEB Obligation	4,253
Adjustment to Annual Required Contribution	(3,544)
Annual OPEB Cost (Expense)	52,985
Net Contribution Toward the OPEB Cost (1)	4,344
Increase in Net OPEB Obligation	57,329
Net OPEB Obligation, Beginning of Year	106,316
Net OPEB Obligation, End of Year	\$ 163,645

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

The College’s annual OPEB cost, percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2012, and for the two preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	\$ 20,760	(62.9)%	\$ 98,059
2010-11	21,566	61.7 %	106,316
2011-12	52,985	(8.2)%	163,645

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$324,567, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$324,567, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$17,161,943 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1.89 percent.

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

COLLEGE OF CENTRAL FLORIDA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

The College's OPEB actuarial valuation as of July 1, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2012, and the College's 2011-12 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 10.5 percent pre-Medicare and 8.5 percent Medicare for the 2011-12 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 7 years for pre-Medicare and 6 years for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2012, was 25 years.

7. RETIREMENT PROGRAMS

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of creditable 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. Members of both plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

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

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00%	4.91%
Florida Retirement System, Senior Management Service	3.00%	6.27%
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00%	4.42%
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

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

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$1,466,453, \$1,684,118, and \$1,172,108, respectively, which were equal to the required contributions for each fiscal year.

There were 147 College participants in the Investment Plan during the 2011-12 fiscal year. The College’s contributions including employee contributions to the Investment Plan totaled \$383,367, which was equal to the required contributions for the 2011-12 fiscal year.

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

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JUNE 30, 2012

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes, on behalf of a participant, 7.92 percent of the participant's salary, less a small amount used to cover administrative costs, and employees contribute 3 percent of their salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 18 College participants during the 2011-12 fiscal year. The College's contributions to the Program totaled \$108,979 and employee contributions totaled \$41,711 for the 2011-12 fiscal year.

8. RISK MANAGEMENT PROGRAMS

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide college risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$150 million through February 29, 2012, and up to \$90 million from March 1, 2012. Insurance coverage obtained through the Consortium included employee group health and hospitalization, life, dental and long-term disability coverage, fire and extended property, general and automobile liability, workers' compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

9. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 19,178,892
Academic Support	4,430,051
Student Services	4,882,749
Institutional Support	10,520,197
Operation and Maintenance of Plant	6,959,492
Scholarships and Waivers	15,300,277
Depreciation	3,591,440
Auxiliary Enterprises	<u>677,205</u>
Total Operating Expenses	<u><u>\$ 65,540,303</u></u>

10. COMPONENT UNITS

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

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JUNE 30, 2012

	College of Central Florida Foundation, Inc. 12-31-11	The Appleton Cultural Center, Inc. 12-31-11	Total
Condensed Statement of Net Assets			
Assets:			
Current Assets	\$ 4,247,715	\$ 238,679	\$ 4,486,394
Capital Assets, Net	21,430,867		21,430,867
Other Noncurrent Assets	50,275,106	600,000	50,875,106
Total Assets	75,953,688	838,679	76,792,367
Liabilities:			
Current Liabilities	1,026,207	7,300	1,033,507
Noncurrent Liabilities	3,316,316		3,316,316
Total Liabilities	4,342,523	7,300	4,349,823
Net Assets:			
Invested in Capital Assets, Net of Related Debt	19,040,867		19,040,867
Restricted	45,405,280	831,379	46,236,659
Unrestricted	7,165,018		7,165,018
Total Net Assets	\$ 71,611,165	\$ 831,379	\$ 72,442,544
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			
Operating Revenues	\$ 1,646,288	\$	\$ 1,646,288
Operating Expenses	(3,696,546)	(3,800)	(3,700,346)
Operating Loss	(2,050,258)	(3,800)	(2,054,058)
Net Nonoperating Revenues	669,108	21,577	690,685
Other Revenues, Expenses, Gains, and Losses	946,177		946,177
Increase (Decrease) in Net Assets	(434,973)	17,777	(417,196)
Net Assets, Beginning of Year	72,046,138	813,602	72,859,740
Net Assets, End of Year	\$ 71,611,165	\$ 831,379	\$ 72,442,544

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

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

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

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

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

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

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



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House of Representatives, and the
Legislative Auditing Committee

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

We have audited the financial statements of College of Central Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report on the College's financial statements. For the College of Central Florida Foundation, Inc., this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of The Appleton Cultural Center, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted a certain additional matter that is described in the **FINDING AND RECOMMENDATION** section of this report. Additionally, we noted certain matters that we reported to College management in our operational audit report No. 2013-054.

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
March 15, 2013

FINDING AND RECOMMENDATION

ADDITIONAL MATTER

Finding No. 1: Direct-Support Organization Audit

Pursuant to Section 1004.70(6), Florida Statutes, college direct-support organizations must annually provide for a financial audit by an independent certified public accountant, and such audits must be performed in accordance with rules adopted by the Auditor General. Section 10.720(1)(g), Rules of the Auditor General, requires that such audits be performed in accordance with *Government Auditing Standards (GAS)* issued by the Comptroller General of the United States.

The Appleton Cultural Center, Inc. (Center), a direct-support organization and component unit of the College, obtained an audit of its financial statements for the calendar year ended December 31, 2011. However, because the College and the Center were unaware of the *GAS* requirement, the audit was not conducted in accordance with *GAS*, contrary to Section 10.720(1)(g), Rules of the Auditor General.

Recommendation: **The College should ensure that the Center’s annual audit is performed in accordance with *GAS*.**

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

EXHIBIT A
MANAGEMENT'S RESPONSE



College of Central Florida

Office of the President

March 15, 2013

David W. Martin
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

The following is our response to the preliminary and tentative finding in the Financial Audit for College of Central Florida for the Fiscal Year Ended June 30, 2012.

ADDITIONAL MATTER - Finding No. 1: The financial audit of The Appleton Cultural Center, Inc., was not performed in accordance with Government Auditing Standards, contrary to Rules of the Auditor General.

The College concurs with the finding and has contacted our external auditors responsible for the preparation of the Appleton Cultural Center, Inc. annual audit to ensure that the audit is performed in accordance with Government Auditing Standards.

Sincerely,

James D. Henningsen, Ed.D.
President